

Grid West Bylaws

September 10, 2004

The attached comments reflect comment log number(s): GWB-027 through GWB-037.

Allen Burns – R-3
Syd Berwager – R-3
Preston Michie – R-3
Tara Exe – R-3
Steve Larson – L-7

NOTE: If you have any changes to the above distribution list, please contact Ginny Kuehn, x4413. Thank you.

Grid West Bylaws

10-Sep-04

Specialist: Tara Exe

Program Office: Industry Rest.

Comment Close Date: 9/3/2004

Comment Log #	First Name	Last Name	Affiliation	Receipt Date	Notes
GWB-027	Michael	Early	Alcoa Inc., CFAC, and ICNU	9/7/2004	signed by Linc Wolverton, Rep
GWB-028	Mike	MacDougall	Powerex	9/3/2004	
GWB-029	Yakout	Mansour	British Columbia Transmission Corp.	9/3/2004	FAX
GWB-030	Joel D.	Cook	PPL Montana, LLC (PPLM)	9/3/2004	
GWB-031	James W.	Sanders	Benton County PUD	9/3/2004	FAX
GWB-032	Nancy	Baker	Public Power Council ATTACHMENT	9/7/2004	Attachment to comments #GW
GWB-033	Terence L.	Mundorf	Western Public Agencies Group	9/7/2004	
GWB-034	Jean	Ryckman	Franklin PUD	9/7/2004	FAX
GWB-035	Richard D.	Lovely	Grays Harbor PUD	9/7/2004	FAX
GWB-036	Steve	Marshall	Snohomish County PUD No. 1	9/7/2004	FAX - Attached Letter to Ken
GWB-037	Wayne W.	Nelson	Clark Public Utilities	9/7/2004	FAX

September 3, 2004 (Revised)

Filed at: www.bpa.gov/comment

Allen Burns
Executive VP for Industry Restructuring
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621

Re: Comments of Alcoa Inc., Columbia Falls Aluminum Company, LLC, and the Industrial Customers of Northwest Utilities on Proposed Grid West Bylaws.

By letter dated July 14, 2001, BPA asked for comments on the proposed “good enough” versions of the Developmental and Operational Bylaws for Grid West. In particular, BPA requested comment on governance issues and the balance between independence of the Grid West board and regional accountability.

These comments are submitted by Alcoa Inc, Columbia Falls Aluminum Company, LLC and the Industrial Customers of Northwest Utilities (“Industries”). The Industries support the conclusions in the August 23, 2004, comments submitted by the Public Power Council regarding 1) the concern over ceding control over regional transmission systems to FERC; 2) the need to have ongoing regional membership approval of instances of major decisions within the five outlined areas; and 3) the need for membership to approve the budget. In addition, we provide the following additional comments.

1. The “good enough” versions of the bylaws still leave critical issues unresolved.

The Grid West process (succeeding the RTO West and IndeGo processes) and participants suffer from a well earned fatigue. In addition, there is an uncertain RRG process for determining “regional consensus” on disputed bylaws issues and there is the

requirement that the Operational Bylaws be final before the Developmental Bylaws are adopted.

It is in this context that the “good enough” versions of the bylaws were published for comment. As a consequence, the bylaws leave several critical issues unresolved, e.g. §12.2 of the Developmental Bylaws regarding the member vote to adopt the Operational Bylaws or §7.16 of the Operational Bylaws regarding Special Issues. Any support by BPA for adoption of the Developmental Bylaws must be contingent on a resolution of these issues acceptable to BPA’s customers.

2. The governance structure underrepresents those directly at risk if Grid West follows the path of other failed RTOs.

Any influence for regional accountability by the independent board of Grid West will be made through the member classes and their voting rights. There are five member classes:

- Major Transmission Owners
- Transmission Dependent Utilities
- Generators, Power Marketers, and Others (i.e. utilities outside Grid West)
- End-Use Consumers
- Regulators, Tribes, and Public Interest Groups

On the Members Representative Committee (MRC), the End-User class is sub-divided with three of six seats allocated to “consumer advocates”.

The proposed pricing model for Grid West is a “loads-only pay”, i.e. power sellers do not pay a transmission access charge to Grid West except for a power sale exported from Grid West. Large end-use customers are the only members that will directly incur and pay Grid West access charges without the ability to pass through these charges, but these directly at-risk customers are limited to only 3 of 30 votes in the MRC.

This limited accountability to customers directly at risk is unacceptable. For example, the independent board is urged to be sensitive to cost-shifts. However, it is not clear why the board would make this a determinative factor in critical decisions, e.g. to adopt a rate methodology other than Company Rates. Currently, another decision maker without direct regional accountability—FERC—states that cost shifts are a concern, but that concern has not been determinative to FERC’s decisions to the RTO context. Further, cost-shifts are not critical to some member classes. Grid West is a non-profit and Transmission Owners will recover their transmission investment through Grid West charges without regard to cost-shifts. In a “loads-only pay” system, generators and power marketers want lower rates to reach off-Grid West markets, but are largely indifferent to cost-shifts within Grid West as long as all sellers face the same transmission access costs to serve a given load.

In short, the governance structure does not provide for reasonable accountability of Grid West to end-users on crucial issues such as cost-shifts.

3. The governance structure disenfranchises cogeneration interests.

As ICNU has pointed out to the drafters of the bylaws, the governance structure fails to provide a membership classification or representation for cogeneration interests. A significant amount of the region’s cogeneration lies within BPA’s control area.

Cogenerators are assigned to membership categories on the basis of the level of load versus the level of generation. If load exceeds generation, they are placed in the end-use category. If the opposite, they are placed in the generation category. The problem is that a measure of MWs—a megawatt theory of value, to paraphrase Karl Marx—does not necessarily reflect the economic interests that need to be protected.

The impact of a number of Grid West functions—maintenance scheduling, transmission capacity determination, must-run and dispatch requirements, to name a few examples—can be much larger than the impact of load issues.

Cogenerators must be allowed to choose where their economic interests lie, and problems of frequent member-group shopping should be addressed by minimum times before changes can be made—absent changes in circumstances that make a cogenerator ineligible for a member category.

4. The RRG process includes four decisions points, but the bylaws provide for regional approval of, at most, only two.

BPA's July 12 discussion paper identifies four decision points:

#1—Adopting the Developmental Bylaws

#2—Electing the five member board

#3—Offering Transmission Agreements by Grid West to the Transmission Owners.

#4—Adopting the Operational Bylaws

Obviously, the Developmental Bylaws do not address decision point #1, which occurs if there is “RRG Consensus and funding commitments”. BPA asserts that decision point #1 does not decide decision point #2, i.e. BPA's support for adoption of the

Development Bylaws “would not be a decision by BPA . . . to activate seating of the independent development board”. However, the Bylaws provide no further “decision point” before seating the board. The handout calls for some further RRG “consensus” in Spring 2005 before decision point #2 is made. However, the nature of such RRG consensus remain uncertain.

Once the board is seated, Grid West takes on a life and goal of its own. The board’s purposes are to develop and negotiate Transmission Agreements, to secure execution of the Transmission Agreements, and to develop tariff provisions. §3.1. Once the Developmental Bylaws are adopted, the board of Grid West is moving towards these goals and the question becomes: under the bylaws what regional approval, if any, does Grid West need to become fully operational, and does this approval provide an acceptable level of control to the region before Grid West becomes operational?

Grid West needs no regional approval to offer Transmission Agreements, i.e. decision point #3. Under §12.2, to become operational, Grid West needs only BPA and two IOUs to sign Transmission Agreements and (maybe) a member vote to adopt the Operational Bylaws. (Grid West must also complete a “risk-and-rewards” analysis, but the bylaws require no specific criteria or findings that the study or the board must meet). Moreover, the terms of the member vote—or even whether a vote is required or is binding on the board—is not determined in the “good enough” bylaws.

The Industries urge BPA to insist that there must be a member vote to approve adoption of the Operational Bylaws. And the vote must show substantial support, significantly more than a simple majority.

5. BPA must commit now, before signing the Developmental Bylaws, to certain minimum findings it must make before signing a TA.

Before BPA signs the Transmission Agreement it has committed to conduct a public process leading to a ROD. Since the bylaws provide no protection, BPA must commit to its customers before signing the Developmental Bylaws to certain minimum findings in the ROD:

- Grid West will not cause any material transmission cost shifts to BPA customers as a whole or to any subgroup of BPA customers.
- Grid West will not cause any material power cost shifts to BPA customers as a whole or to any subgroup of BPA customers.
- Grid West will not cause Northwest loads to subsidize the export of existing resources from the Northwest to California markets.
- Grid West will provide quantifiable benefits in excess of costs within the BPA service territory, as measured by the delivered cost of power.
- BPA can demonstrate that withdrawal from Grid West is practical.
- There are meaningful limits and control on Grid West's uplift costs.

In conclusion, the bylaws are still a work in progress. However, they have taken a wrong turn in the balance between independence, representation and regional accountability. It may be that a Grid West proposal with sufficient regional accountability does not meet FERC's standard for independence. We don't know. But, we should not give away regional accountability because what FERC might do.

Very Truly Yours,

Michael B. Early
1300 SW Fifth Ave, Suite 1750
Portland, OR 97201
(503) 402-8705
michaearly@earthlink.net

Attorney on behalf of Alcoa Inc. and
Columbia Falls Aluminum Company, LLC

Linc Wolverton

Representative for Industrial Customers of
Northwest Utilities

GW3-028
SEP 03 2004

September 3, 2004

VIA FAX - 503-230-3285

Bonneville Power Administration
Attn: Communications - DM-7
P.O. Box 14428
Portland, OR
97293-4428

Re: Request for Comments on the Proposed Development and Operational Grid West Bylaws

To Bonneville Power Administration:

Powerex is responding to your request for comments on the proposed Grid West bylaws issued on July 14, 2004. Overall, Powerex strongly urges BPA to make an affirmative decision with respect to Decision Point #1 in order to continue the movement forward with the Grid West Development process. Powerex does not believe that the Pacific NW region nor BPA's customers will be well served by once again terminating the discussions that are anticipated to lead toward the integration of the region's transmission services.

supply.
flexibility.
commitment.

Powerex is a major customer of BPA's Transmission Business Line ("TBL") and has been an active participant in the discussions regarding regional transmission integration. These discussions have a long tortured history dating back to at least 1996 and the INDEGO process. Over this time, uncertainty has been prevalent with respect to transmission services for both providers and customers. This is particularly evident in the lack of investment in both the transmission infrastructure and the technology needed to support transmission services. Meanwhile, the demand for use of the system has increased due to load growth and the maturing energy market, which has seen a greater number of suppliers doing business with utilities and other loads within the region.

The fact that we have a problem was recognized by the region as a whole during the RRG dialogue, which led to the Regional Platform Proposal, and which in turn has led us to this stage in the process on the Grid West bylaws. In parallel, Powerex has participated in a number of TBL ratecase proceedings where the need for investment in technology to provide transmission services has been identified, but the effort to implement those investments has been delayed, in part due to the anticipated arrival of broader regional transmission services.

POWEREX CORP.

Suite 1400
666 Burrard Street
Vancouver, BC
Canada V6C 2X8
TEL: 604.891.5000
1.800.220.4907
www.powerex.com

With respect to your particular questions, Powerex has the following responses.

- **Have the draft bylaws addressed the governance concerns expressed earlier in the region?**

Overall, Powerex believes that the workgroup that developed the bylaws carefully considered any and all concerns expressed directly to the workgroup or at the Regional Representatives Group meetings. However, we have some reservations with the balance between accountability, independence and workability as elaborated in the question below.

- **Do the draft bylaws appropriately balance regional accountability with independence and workability?**

Powerex believes that the proposed bylaws are tilted too much in favour of process at the expense of independence and workability. There are numerous provisions in the proposed bylaws that ensure regional input and accountability to regional interests. While Grid West is intended to be an independent transmission organization, it will necessarily involve industry stakeholders through the establishment of the Board of Trustees, the Members Representative Committee, the advisory committees, in public meetings and its decision-making.

While the regional input is critical to enabling Grid West, we believe that the "process burden" associated with its regional responsibilities is significant and could impede timely decision-making. For example, a primary function of the "Developmental" Board is the negotiation of Transmission Agreements (TAs) with the transmission providers. These negotiations are expected to be accomplished via a public process. However, after negotiating the TAs, a further consultation with the RRG is required. This process is redundant in the face of the open negotiation process and but one example of the excessive redundancy of process.

- **Are there other matters BPA should consider in making this decision?**

Powerex believes that the true test of support and necessity for Grid West will come when transmission providers decide whether or not to sign the TAs. While we appreciate BPA's desire to consult its stakeholders, Powerex would also point out that most these parties are well versed in the issues as part of their participation in the RRG. As a result, Powerex is concerned that extraneous process and consultation will continue to slow down the achievement of each of the subsequent milestones and Decision points that eventually lead to the ultimate decision of whether or not to participate in Grid West. While we believe that methodical discussion, evaluation and analysis is necessary, this effort should be focused on achieving the best possible product on which to make the final decision, not for "analysis paralysis".

In addition, as noted above, years of underinvestment in transmission infrastructure and growth in the market have begun to catch up to the region. This is resulting in pressures to invest in and fix the system. Unfortunately, this effort is being undertaken under the same transmission provider centric model of decades past. The risk for transmission providers

Bonneville Power Administration

- 3 -

and their customers is that these investments will not be the most economic from a regional perspective, because the interutility planning benefits that parties believe to exist, and in part drive the creation of Grid West, will not be captured under the current planning models. This will raise the overall costs of energy infrastructure and delivery in the region and limit the choice that customers will have regarding their incremental energy requirements.

Powerex believes that BPA's participation in Grid West is crucial to the successful integration of regional transmission services. More importantly, Powerex believes that the integration of the region's transmission services are crucial to the maintenance of the Pacific NW competitive energy advantage via the maximization of the benefits of both infrastructure investment and customer choice for incremental energy supplies. Powerex reiterates its strong support for BPA to reach an affirmative decision with respect to Decision Point # 1.

Sincerely,



Mike MacDougall
Manager
Trade Policy

Direct Line: 604. 891.6038

Fax Line: 604. 895.7012

Email: mike.macdougall@powerex.com



**British Columbia Transmission
CORPORATION™**

**Office of the Senior Vice President
System Operations and Asset Management
Phone: 604-699-7313
Fax: 604-699-7471
yakout.mansour@bctc.com**

603-029

SEP 03 2004

September 3, 2004

Bonneville Power Administration
Attn: Communications – DM-7
P.O. Box 14428
Portland, Oregon 97293-4428
FAX: 503-230-5884

Re: Request for Comments on the Proposed Development and Operational Grid West Bylaws

To Bonneville Power Administration:

The British Columbia Transmission Corporation ("BCTC") has been directly involved in the development and drafting of the proposed bylaws for Grid West. As a result, BCTC is not only invested in the effort but has an informed view of the careful balances that have been struck in order to satisfy the Filing Utilities, stakeholders and various interests represented on the Regional Representatives Group (RRG). We believe that the bylaws achieve an adequate balance between independence and ensuring regional input. We also believe that National Academy of Public Administration reached a similar conclusion in its "Initial Academy Staff Draft", i.e., that the governance structure of Grid West, as reflected in the bylaws, "represent a reasonable, workable approach to trying to deal with the complex policy environment of power issues in the Northwest".

This letter is in direct response to your July 14th Request for Comments on the proposed bylaws and the three specific questions you have posed to your customers and interested parties:

- (1) Have the draft bylaws addressed the governance concerns expressed earlier in the region?
- (2) Do the draft bylaws appropriately balance regional accountability with independence and workability?
- (3) Are there other matters BPA should consider in making this decision?

Q1: Have the draft bylaws addressed the governance concerns expressed earlier in the region?

A1: While BCTC believes that the bylaws will create substantial process requirements that could significantly slow decision-making, we believe that the workgroup that developed the bylaws carefully considered any and all concerns expressed directly to the workgroup or at the Regional Representatives Group meetings.

... 2



**British Columbia Transmission
CORPORATION™**

Q2: Do the draft bylaws appropriately balance regional accountability with independence and workability?

A2: There are numerous provisions in the proposed bylaws that ensure regional input and accountability to regional interests. While Grid West is intended to be an independent transmission organization, it will necessarily involve industry stakeholders through the establishment of the Board of Trustees, establishment of the Members Representative Committee, the establishment of advisory committees, in public meetings, and in its decision-making. While the regional input is critical to enabling Grid West to respond to regional interests, we believe that the "process burden" associated with its regional responsibilities is significant and could very well deter interest and involvement by respected and qualified professionals. In addition, we believe that this burden may impede quick action when critical decisions are required that do not have the luxury of time.

Q3: Are there other matters BPA should consider in making this decision?

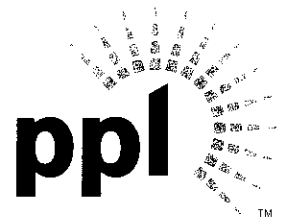
A3: While we are sensitive to BPA's need to engage its stakeholders, constituents and advisors on its decisions, e.g., informing BPA how to proceed with the pending Decision Point #1, we are concerned that process will continue to slow each of the subsequent milestones and Decision Points that eventually lead to the ultimate decision of whether or not to participate in Grid West. We believe that methodical discussion, evaluation and analysis is necessary, however, BCTC does not support deliberate process "slow-down" and believes that this can have a deleterious effect on even the most controversy-free effort. To this end, BCTC encourages dedicated engagement in the remaining efforts and activities contemplated by the Regional Proposal and the Process Diagram. The ultimate decision regarding participation in Grid West should be made when these efforts are concluded.

Thank you for seeking our input.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Yakout Mansour".

**Fw: Yakout Mansour
Senior Vice President
System Operations and Asset Management**



September 3, 2004

Via Fax and U.S. Mail

Mr. Allen Burns
Executive Vice President
Bonneville Power Administration
Attn: Communications DM-7
P.O. Box 14428
Portland, OR 97293-4428

GWB-030
SEP 03 2004

RE: R-3

Dear Mr. Burns:

PPL Montana, LLC (PPLM) appreciates Bonneville Power Administration (BPA's) providing the opportunity to comment regarding the Developmental and Operational Bylaws for the proposed Grid West transmission organization. PPLM supports the effort to develop bylaws that will govern the Grid West transmission organization consistent with the Regional Proposal developed by the Regional Representatives Group. PPLM encourages BPA to support Grid West by making a positive decision to move forward at Decision point #1, which is now scheduled for November 4, 2004.

Establishing a regional transmission organization in the Pacific Northwest Region will lead to reliability and efficiency benefits for the entire region. PPLM supports the Regional Proposal and the associated bylaws that ensure key regional safeguards are workable and that the entity will consider the best interests of the region in proposing changes, including avoidance of significant, unmitigated cost shifts; protection of existing contracts; and linking changes to improvements over existing practices.

BPA has stated that it is seeking customer and stakeholder feedback on the proposed Developmental and Operational Grid West Bylaws – focusing on the following key points:

- Have the draft bylaws addressed the governance concerns expressed earlier in the region?
- Do the draft bylaws appropriately balance regional accountability with independence and workability?
- Are there other matters BPA should consider in making this decision?

Developmental Bylaws

PPLM believes that a decision by BPA that supports moving forward with the adoption of proposed bylaws is critical to the creation of the Grid West transmission organization. However, PPLM believes that the broad based consensus and compromise of the Regional Proposal is being eroded in certain provisions of the bylaws, particularly with regard to workability and independence of the developmental board.

PPLM, as both a generator and marketer in the Pacific Northwest Region, is concerned that the member vote proposals in Section 12 of the proposed Developmental Bylaws erode the board's independence. PPLM is also concerned that the extensive prescriptive processes the developmental board will be required to undertake may compromise both workability and independence of the board to the point that the Grid West transmission organization will not come to fruition.

The developmental bylaws create an independent entity to undertake limited functions. These functions include:

- Serving as the counter party with the filing utilities in negotiating the Transmission Agreements
- Completing the final Grid West proposal for hand off to the new operational board

Board independence will be crucial throughout both the Grid West developmental phase and operating phase. As presently crafted with the member vote provisions, the developmental bylaws create a board that will effectively lack independence. PPLM believes these voting provisions, which account for much of the

complexity in the bylaws, strike at the central principle of Grid West, which is to be an independent operator of the Pacific Northwest transmission system.

The Region's customers and stakeholders will have ample opportunity for comment and input regarding the development board's decisions. The board will need to stay attuned to the concerns of the Region's customers and stakeholders, but if the developmental bylaws contain member vote and prescriptive mandatory consultation provisions, the independence and workability of the board will be compromised. It is our opinion that if the developmental board does not have the ability to make fully independent decisions, it will be unable to treat all regional stakeholders fairly and equitably.

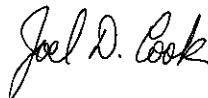
We also believe that such stakeholder votes will lead to the kind of gridlock that has hampered the decision-making ability of the California Independent System Operator. The Pacific Northwest Region must learn from and avoid the kinds of mistakes, which have been made in other regions.

With the caveats expressed above, PPLM believes a decision by BPA that supports moving forward with the adoption of proposed bylaws is critical to the creation of the Grid West transmission organization. PPLM also believes that it is critical to the future of Grid West that BPA make a positive decision to continue forming Grid West at Decision point 1. PPLM will continue to work through the stakeholder process to address important issues such as those noted above and would welcome BPA's support for addressing them.

It is our belief that BPA, as the major transmission owner and energy marketing entity in the Pacific Northwest, must continue to take the lead in fostering an environment where all of the region's customers and stakeholders can work together cooperatively to further an efficient and reliable electric market. The proposed Grid West transmission organization cannot become a reality without BPA's participation and support.

Thank you for providing PPLM the opportunity to comment.

Sincerely,
PPL EnergyPlus, LLC, as Agent for
PPL Montana, LLC

A handwritten signature in black ink, reading "Joel D. Cook". The signature is written in a cursive, flowing style.

Joel D. Cook
Director of Marketing and Trading



GWβ-031
SEP 03 2004

September 3, 2004

Bonneville Power Administration
Attn: Communications – DM-7
P.O. Box 14428
Portland Oregon 97293-4428
www.bpa.gov/comment or
FAX 503-230-3285

To Whom It May Concern:

Subject: Comments Development Bylaws Grid West – R-3

The following comments are in response to Allen Burns' letter of July 14, 2004 requesting input on the proposed Development and Operational Bylaws being developed by elements of the Regional Representative Group (RRG). Allen's letter requested that comments be focused on three key points:

1. Have the draft bylaws addressed the governance concerns expressed earlier in the region?
2. Do the draft bylaws appropriately balance regional accountability with independence and workability?
3. Are there other matters BPA should consider in making this decision?

I have considered the three key points as requested and find that I have limited comments on the first two points, but do have some comments and observations on the third point, "other matters." If the PUD comes to a decision that an RTO is the best way to solve the region's transmission problems most cost-effectively, then we do have a few issues with the proposed bylaws. We have, however, not been convinced that an RTO is the best way to solve the region's transmission problems and have instructed our RRG representative to vote against Decision #1 for the following reasons:

- We have not seen a reasonable possibility of a positive cost/benefit potential for the PUD
- The Transmission Issues Group (TIG) effort warrants a detailed look
- The Developmental Bylaws do not require regional consensus for moving into the operational phase of Grid West
- Lack of "scope creep" controls in the Operational Bylaws

In order to clarify the PUD's position, I want to describe the context in which we are making our comments in hopes that they will be more fully understood.

Importance of the Decision #1

First, I respectfully disagree with Allen Burns on the implied importance of Decision #1 (the proposed RRG vote to adopt the Development Bylaws at the October 14, 2004 RRG meeting). In Allen's letter he states that supporting the bylaws "would not be a decision by BPA to execute a contract with Grid West, nor is it a decision to seat the independent development board." While this may be true, I see a "slippery slope" here. I believe that if and when the bylaws are approved by the RRG, it will be very difficult, if not impossible, to stop the formation of the Grid West in the future, especially after looking at the way the bylaws are set up, namely a more or less automatic move to the Operational Bylaws. I agree that Bonneville can technically approve or not approve the seating of the development board and the signing of a contract with Grid West. Bonneville may find at that point, however, that it can do nothing but move forward with Grid West, politically.

My recommendation is, **do not underrate the importance of Decision #1.**

The PUD prospective on Grid West

I would like to preface my comments with the following observations:

I recognize that the transmission system (BPA's and others') has problems that need to be addressed. 1) It is true that needed development of the transmission system is languishing in some areas due in large part to lack of understanding of what and how the transmission system will be managed in the future. Funding and responsibility for construction are, among other issues, responsible for delays. 2) Reliability is becoming an issue because needed improvements to the transmission system are being delayed. 3) Project developers and marketers are frustrated because they cannot get the transmission they believe they need to develop and/or market their projects (although the current open season process on the McNary John Day improvements may be a good start). 4) Some believe that the generation system is not being operated as efficiently as it may be under a Grid West scenario.

Comments:

The PUD supports finding solutions to the above problems, as well as those problems that we may not have documented here, and the PUD is willing to fund its fair share of the cost (most likely through BPA transmission rates) to implement those solutions. It has not been demonstrated to our satisfaction, however, that an RTO (i.e., Grid West) will be the most cost effective way to bring about the needed improvements.

One of our overriding concerns is the rate that we will have to charge our retail ratepayers. Any additional costs that we pick up, from whatever source (i.e., the transmission system), must be passed on to them. We understand that the rates that we charge our retail ratepayers will have an effect on the economy, and thus the economic health of our service area. With this thought in mind, I have looked at what an RTO offers versus solving the noted transmission problems piecemeal (i.e., the Transmission Issues Group [TIG] effort) and I have failed to find sufficient benefit to the PUD. At this point all we have seen is the formation of an RTO that will likely cost the PUD more than solving transmission problems via other methods. Additional costs that I see are uplift charges to maintain Grid West and possible loss of existing contract rights in the use of non-firm transmission and cost shifts. It is also likely that an RTO will go well beyond what the region needs to maintain a sound and reliable transmission system (i.e., scope creep). My last point is supported by the experiences of other regions with their forays into the RTO arena.

It is obvious that others must see the benefit of having a Grid West (perhaps a large benefit to them). Their enthusiasm for moving forward seems unbounded. On the whole, however, the identified benefits have not been large enough for the region as a whole to move forward despite a long history of working on this concept. The first entity formed was IndeGo, then RTO West, and now Grid West. The failure of IndeGo and RTO West to move forward demonstrates the lack of identified significant benefits for the region as a whole. If the benefits were there and could be identified and communicated to the region, I believe these efforts would have moved forward despite some difficult hurdles. The bottom line is the lack, to date, of demonstrated positive cost/benefit for a **Bonneville Transmission Customer**. The benefits may be there, but I have not seen them.

From the PUD's perspective, we have experienced good, reliable transmission service at a reasonable cost from Bonneville. The service provided, over time, has been flexible enough to meet our needs at stable rates. I would also like to point out that reliable transmission service is vital to the PUD as Bonneville's transmission system is the only source we have to move energy from generation to our load. Without it, we could not meet our obligations to serve our retail customers. This point is somewhat different with respect to the wholesale power supplied by Bonneville's Power Business Line (PBL) to the PUD. We could go elsewhere to secure energy (and do from time to time) to serve our retail customers, although we might not like the cost. We do not have alternatives to Bonneville transmission, thus, what you do with respect to the transmission system is of vital interest to the PUD.

The following are in order of importance to the PUD:

1. Positive Cost/Benefit – The PUD needs to see some real and tangible benefits that Grid West can and will supply to the PUD. These benefits can be through lower total cost of power delivered to the PUD system (combination of power costs, transmission and ancillary service costs), improved additional transmission

flexibility which would yield lower total cost of power at the PUD system and/or improved reliability that would not otherwise be provided.

I appreciate that work is ongoing to determine the potential cost/benefits for Grid West, and a definition of what the Grid West will be needs to be reached before a good determination can be made of the cost/benefit potential. I also note that some participants have determined there is high potential of a positive cost/benefit for them. I don't know how they have made this determination, but I know that I do not have confidence of a similar determination for the PUD. Perhaps the difference between us lies in the circumstances we find ourselves in (i.e., a BPA transmission customer).

2. Regional acceptance – Any proposed Development Bylaws, that move into the operational phase, that do not have broad regional acceptance (more than a majority of the region's stakeholders), is unacceptable to the PUD.
3. Cost Control – Scope creep and thus cost creep needs to be effectively controlled. While Grid West does need to respond to changed conditions, effective controls need to be in place. I believe the special issues list in the operational bylaws should be expanded to include all significant changes to operations of Grid West that will have a huge dollar impact to a majority vote of the participants. The research PPC has published, on cost increases of RTO across the nation, supports this concern.

Comments on Development Bylaws

Section 12.2

It is my strong belief that any move to adopt the Development Bylaws and move to the Operational Phase should have strong regional support as evidenced by a supermajority of stakeholders. I note that section 12.2, which deals with this issue, has not been resolved. This issue must be resolved and in the bylaws prior to any request to approve them.

Comments on Operational Bylaws

As stated earlier, I am concerned with scope and thus cost creep. The "Special Issues List", Section 7.16 of the Operational Bylaws, is a good start at curbing possible scope creep without some concurrence by the region, but does not go far enough in my opinion. I believe this area needs to be expanded anytime the Grid West Board desires to "significantly" change the scope of Grid West. I believe that if Grid West intends to significantly change its current scope it should seek a majority of its Stakeholder's approval (perhaps the same approval process as for the Special Issues List).

Alternative to Grid West for Consideration

Referring to the Transmission Issues Group (TIG) paper of July 2004, and BPA's response dated August 3, 2004, please be advised that I support the proposal put forth by the TIG and will not reiterate the paper here. In BPA's response, I was encouraged to note that BPA found many areas of agreement with it. I also noted that BPA took some exceptions to portions of the TIG recommendation. I will respond here to some of BPA's exceptions:

1. I note that BPA is concerned with transmission reliability and the improvement of reliability that may be achieved through combining control areas. BPA also notes that existing control areas will likely resist combining control areas unless some independent entity is the operator. Lastly, I have heard in the past that BPA is interested in studying combined control areas for possible efficiency gains in providing load ancillary services.

BPA makes several good points, but I do not believe that an independent entity is absolutely necessary to achieve most, if not all, of the possible gains that BPA envisions. If some entities desire to combine control area functions and BPA determines it is in its best interest to do so, then it should be exploring the concept now, even without an RTO in place. I would support BPA's effort to determine if combining its control area with one or more control areas is beneficial to it (and hence its transmission customers).

Responding to BPA's reliability concerns, I believe that the system has been operated with acceptable reliability levels to date. As the transmission system becomes more stressed and more players become active in this arena, I can see the possibility of reliability problems. I believe the Security Coordinator's function can be strengthened to provide the necessary guidance during times of system stress to maintain the reliability level that we all desire (i.e., I do not believe that it is mandatory that an RTO be set up to cover this function although that is certainly one way to do it).

BPA made comments on the benefits of an OATI. BPA sees major improvements when it says, "reducing transaction costs and improving efficiency will come from managing the grid as a single machine." I do see some benefit to a single OASIS web site and I encourage BPA to pursue this concept for ease in arranging for energy transactions. While I must agree that there will be some benefits for a system wide identification of available transmission capacity and a central decision maker for access, I do not see the benefit as overriding the possible cost risks to the PUD from RTO costs and the possible cost shifts to the PUD that may come through a license plate rate now and/or after any company rate period.

Summary

In summary, I believe that a TIG, or TIG-like effort, to solve the region's transmission problems warrants a detailed look. I believe there is a good possibility that solutions can be achieved at a lower cost than what Grid West will offer. In fact, much has already been achieved in this area to date (i.e., the Security Coordinator).

Cost/Benefit is of major concern for the PUD and it has not been demonstrated to our satisfaction, that there will be sufficient benefit to the PUD that will overcome the costs of Grid West. In order for the PUD to approve going forward with the Development Bylaws, I need to be confident that there will be some positive cost/benefit for the PUD. The PUD having a better definition of what the Grid West will actually be when it is formed could perhaps achieve this. Further, we will need a good understanding of what provisions of our existing Transmission Contract, including existing business practices (Contract Lock), will be post implementation of Grid West.

From our point of view, the Development Bylaws will be fatally flawed unless they contain a provision for securing a regional, stakeholder majority that approves going into the operational phase of Grid West. This means a majority member vote to move to the operational phase is a function of the Development Bylaws.

While I find it hard to take apart the proposed bylaws in detail, I see considerable risk of scope creep and thus, cost creep. For this risk, combined with possible cost shift risks to be acceptable to the PUD, we need to see significant benefit potential and sufficient scope creep controls in the Operational Bylaws. I have not seen these at this point in time.

At this point in time, I have instructed our representative to the RRG to vote against the adoption of the Development Bylaws – Decision #1 and, as your transmission customer, I urge you to do the same.

Thank you for giving us the opportunity to provide you with our comments on this important topic.

Sincerely,



James W. Sanders
General Manager

JWS/REG/gcb

SEP 07 2004

Kuehn, Ginny - DM-7

From: Exe, Tara D - R-3
Sent: Friday, September 03, 2004 4:22 PM
To: Kuehn, Ginny - DM-7
Subject: FW: Attachment to PPC's comments



ComparativeAnalay
sisAug1720041...

Looks like this should be a part of the PPC comments on grid west. thanks

-----Original Message-----

From: Burns, Allen - R-3
Sent: Friday, September 03, 2004 4:17 PM
To: Exe, Tara D - R-3
Cc: Michie, Preston D - R-3; Larson, Stephen R - L-7; Berwager, Syd - R-3; Schmidt, Janelle L - R-3
Subject: FW: Attachment to PPC's comments

More on the PPC comments.

-----Original Message-----

From: Nancy Baker [mailto:nbaker@ppcpdx.org]
Sent: Friday, September 03, 2004 5:12 PM
To: Burns, Allen - R-3
Cc: Rogers, Robert A (Joe) - R-3
Subject: Attachment to PPC's comments

Allen - It has come to my attention that the comments submitted by PPC on 23 August may have been missing an attachment. If so, my apologies. Attached to this e-mail is Attachment A, which should accompany the comments. If you could add it to those comments I would greatly appreciate it. Thanks very much and sorry for the last minute addition.

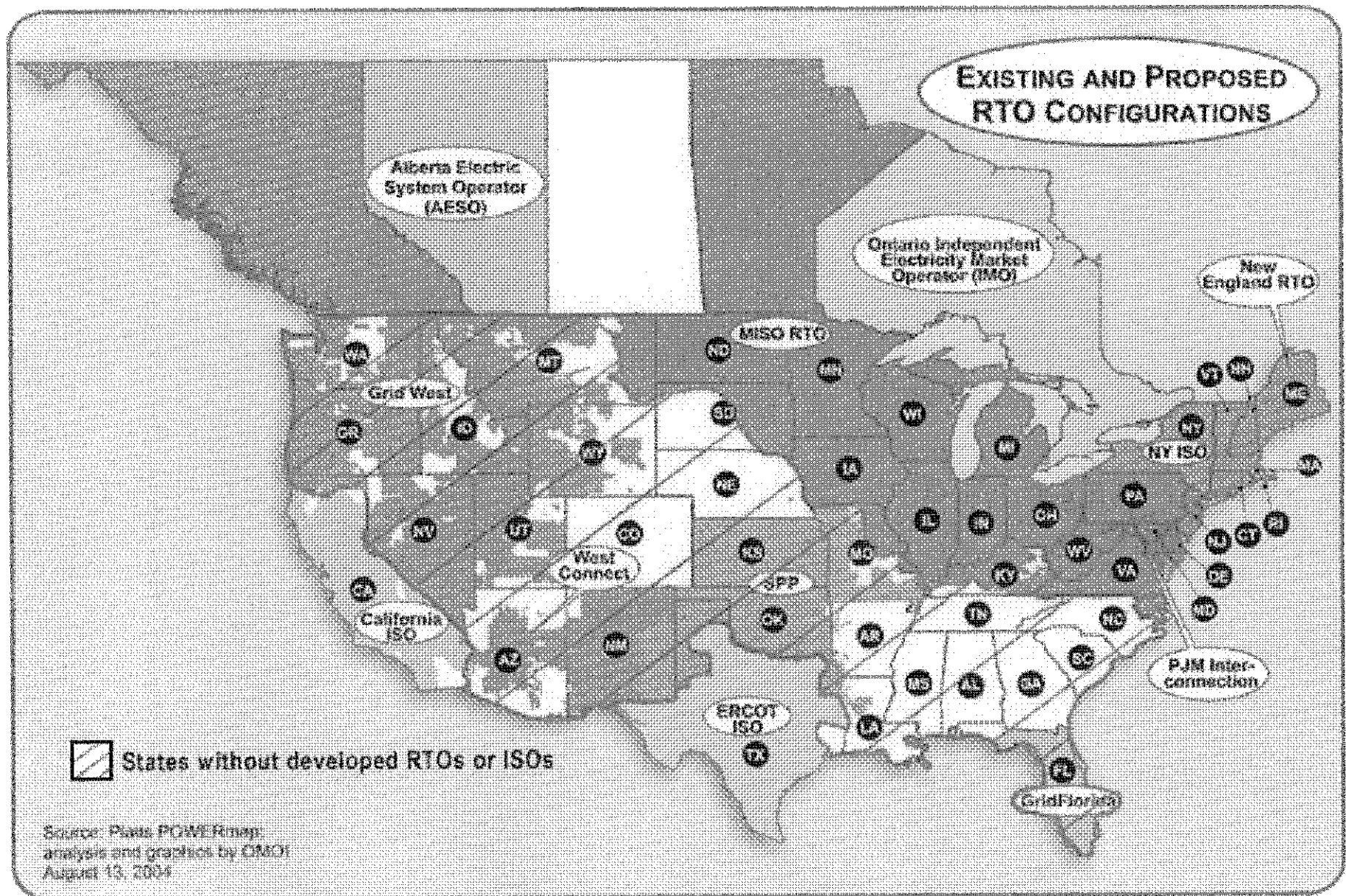
njb



Comparative Analysis of RTO/ISO Operating Costs

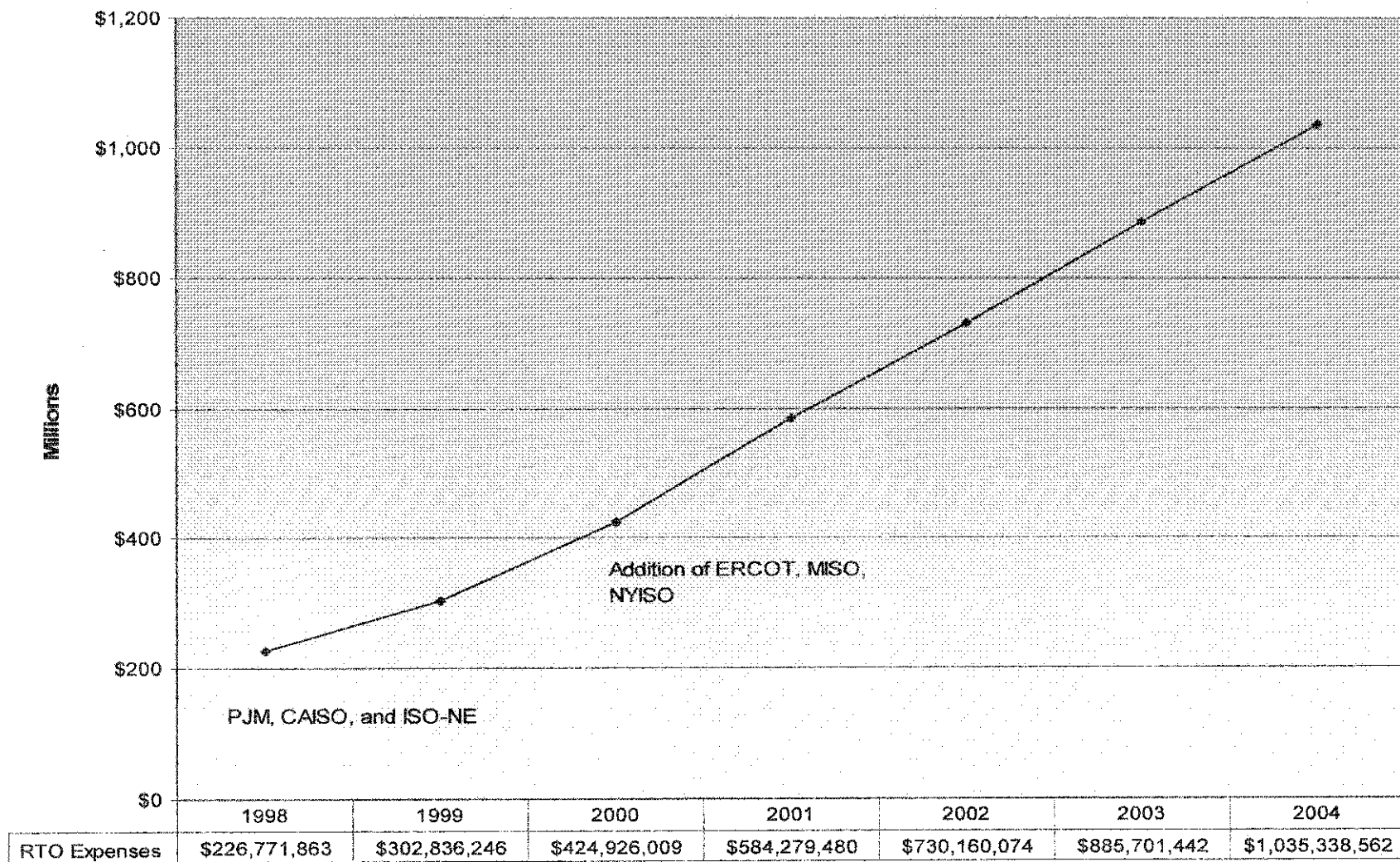
August 17, 2004

Margot Lutzenhiser
Associate Economist
Public Power Council

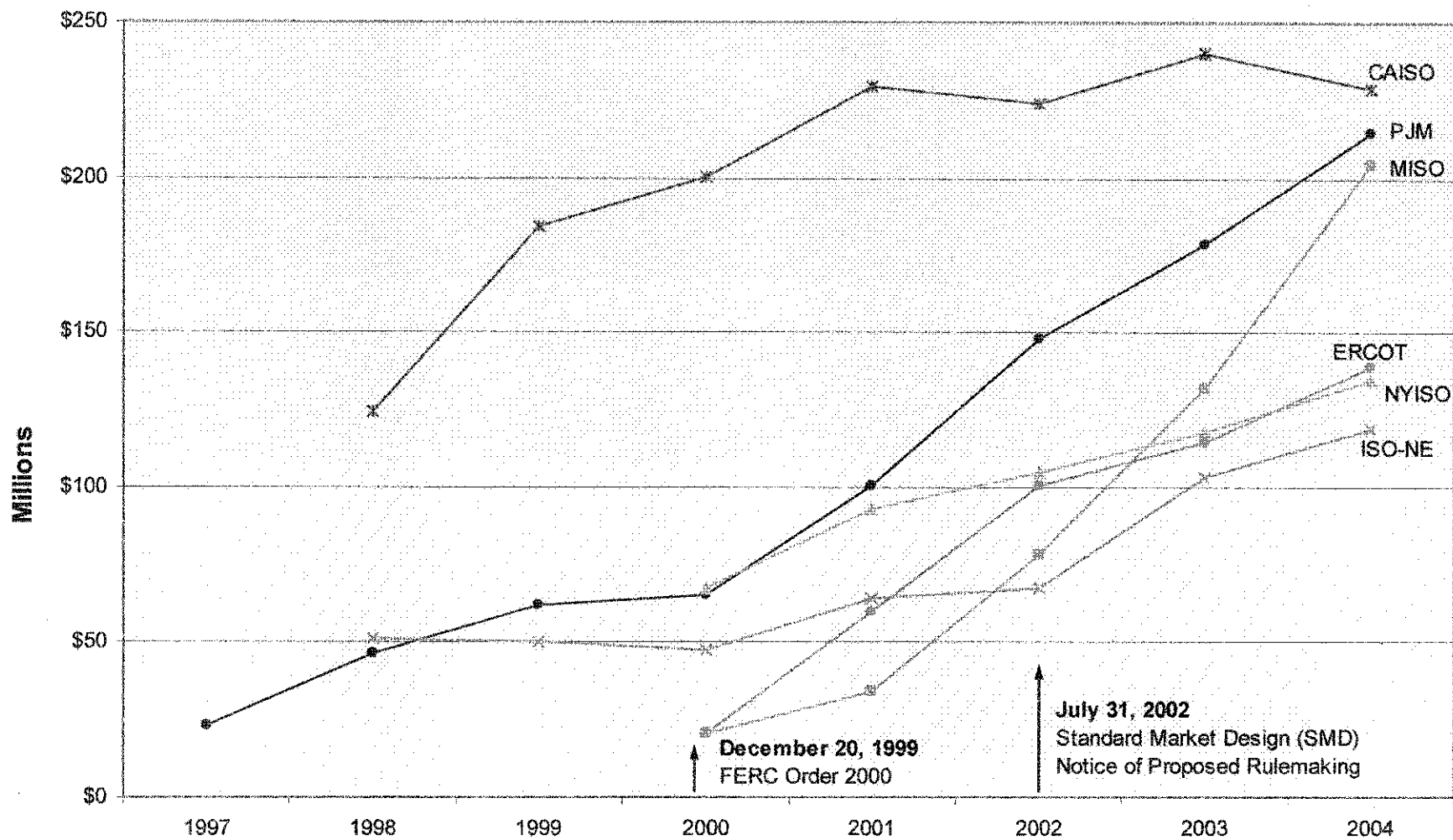


Source: <http://www.ferc.gov/industries/electric/indus-act/rto/rto-map.asp>

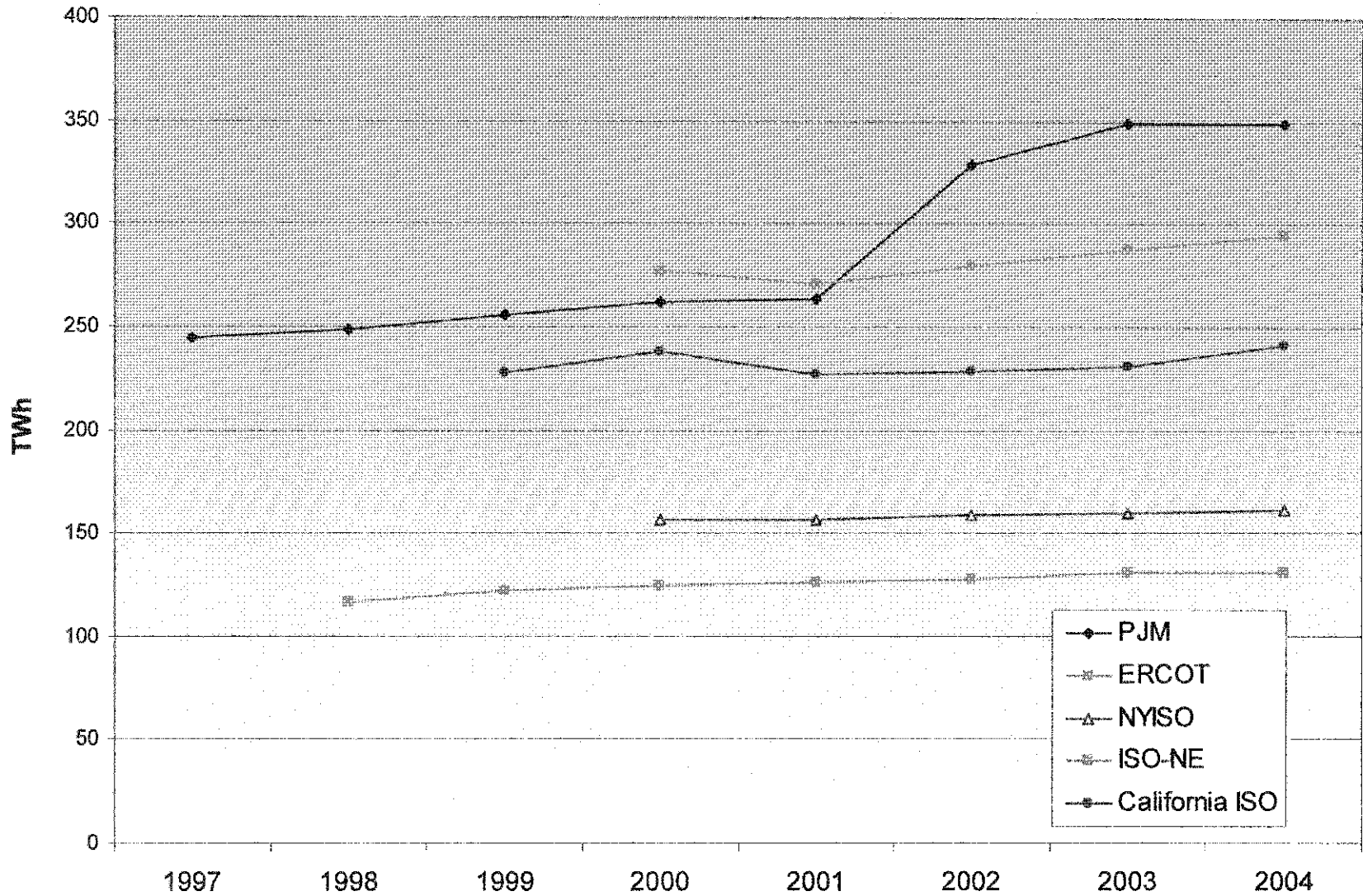
Annual U.S. RTO/ISO Operating Costs (2003 dollars)



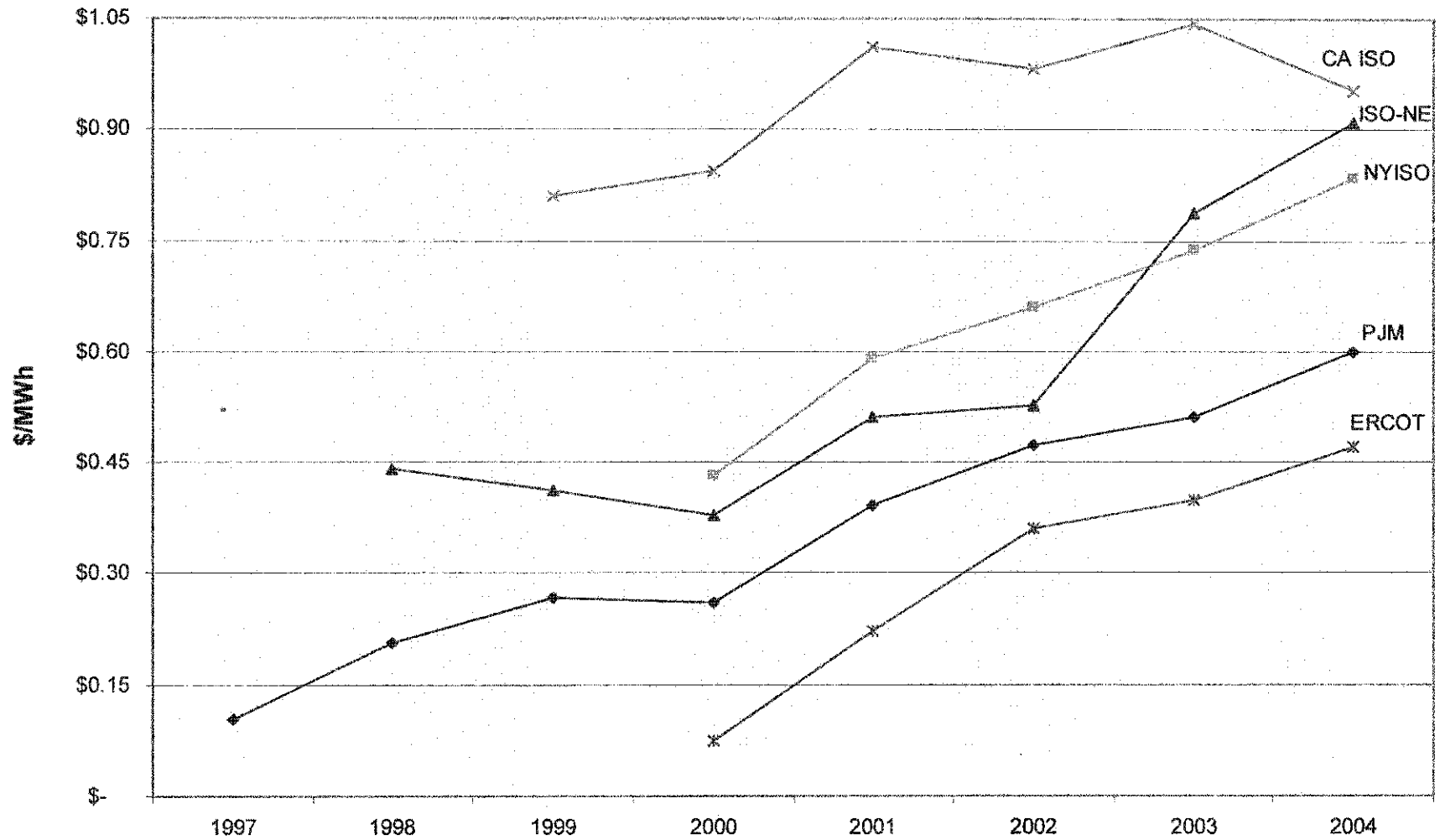
ISO/RTO Annual Operating Costs (Including Amortization, Depreciation and Interest Expenses in 2003 dollars)



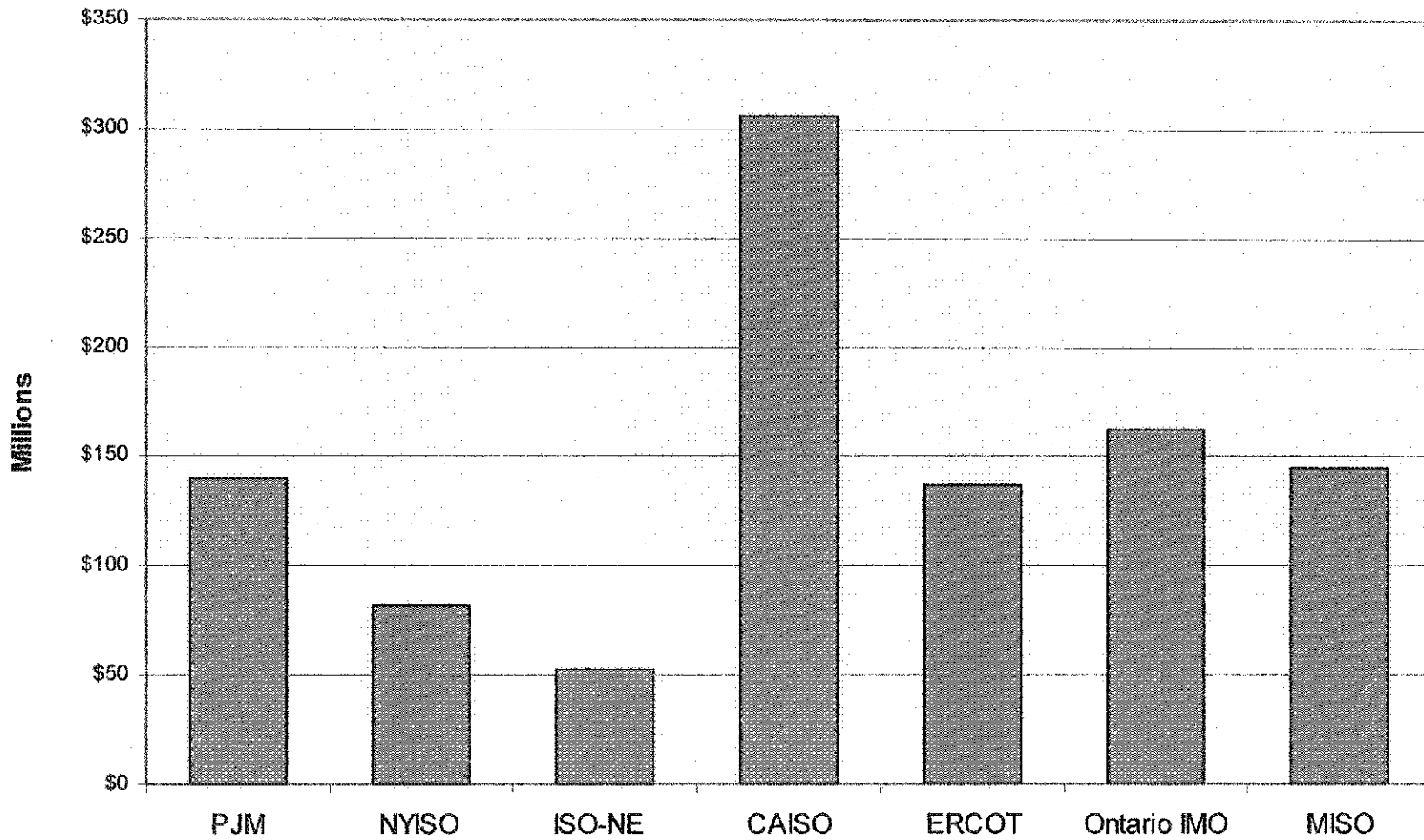
ISO/RTO Net Annual Energy Demand (Load)



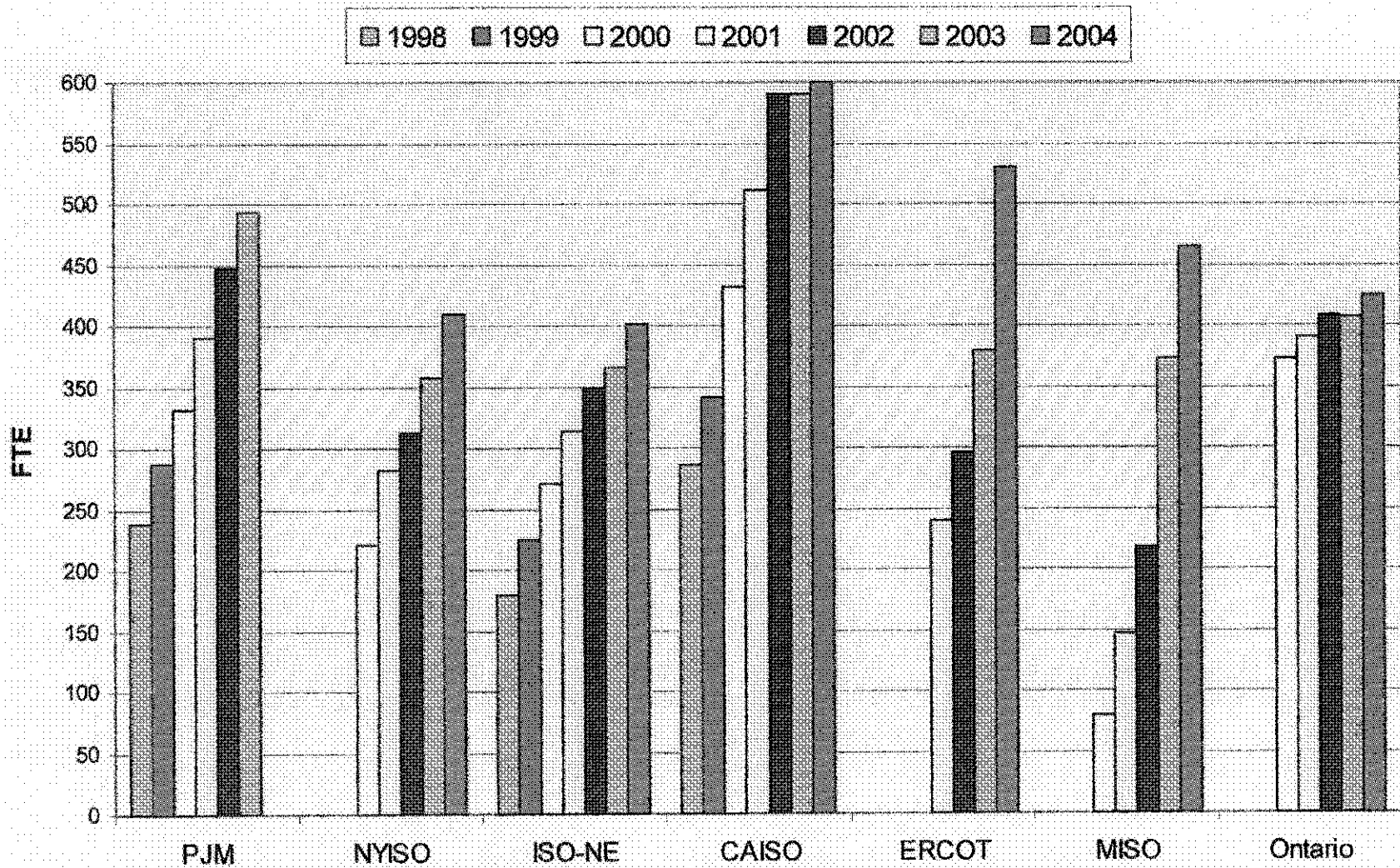
RTO/ISO \$/MWh Annual Operating Costs (2003 Dollars)



RTO/ISO Start-Up Costs

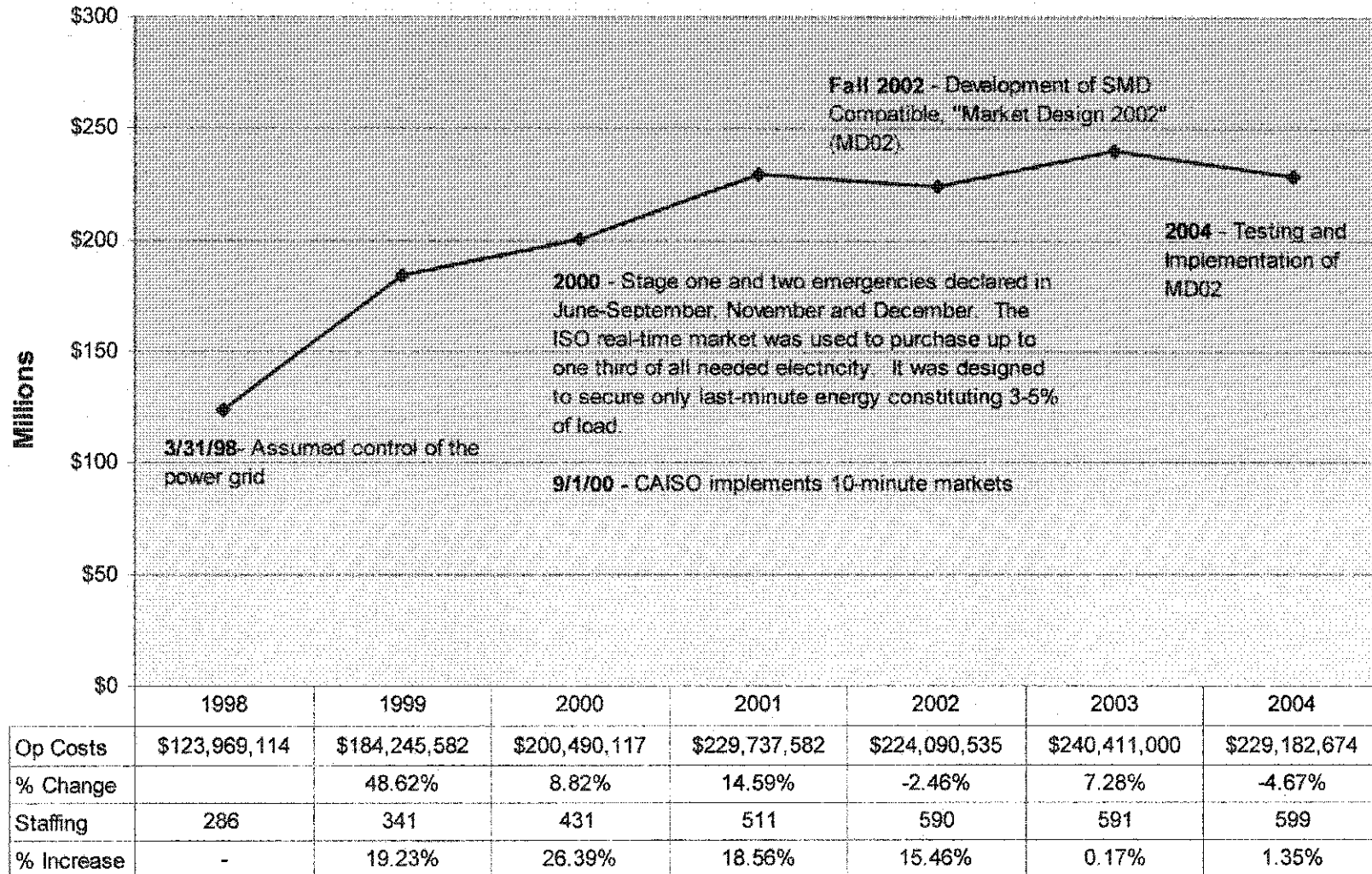


ISO/RTO Staffing Levels

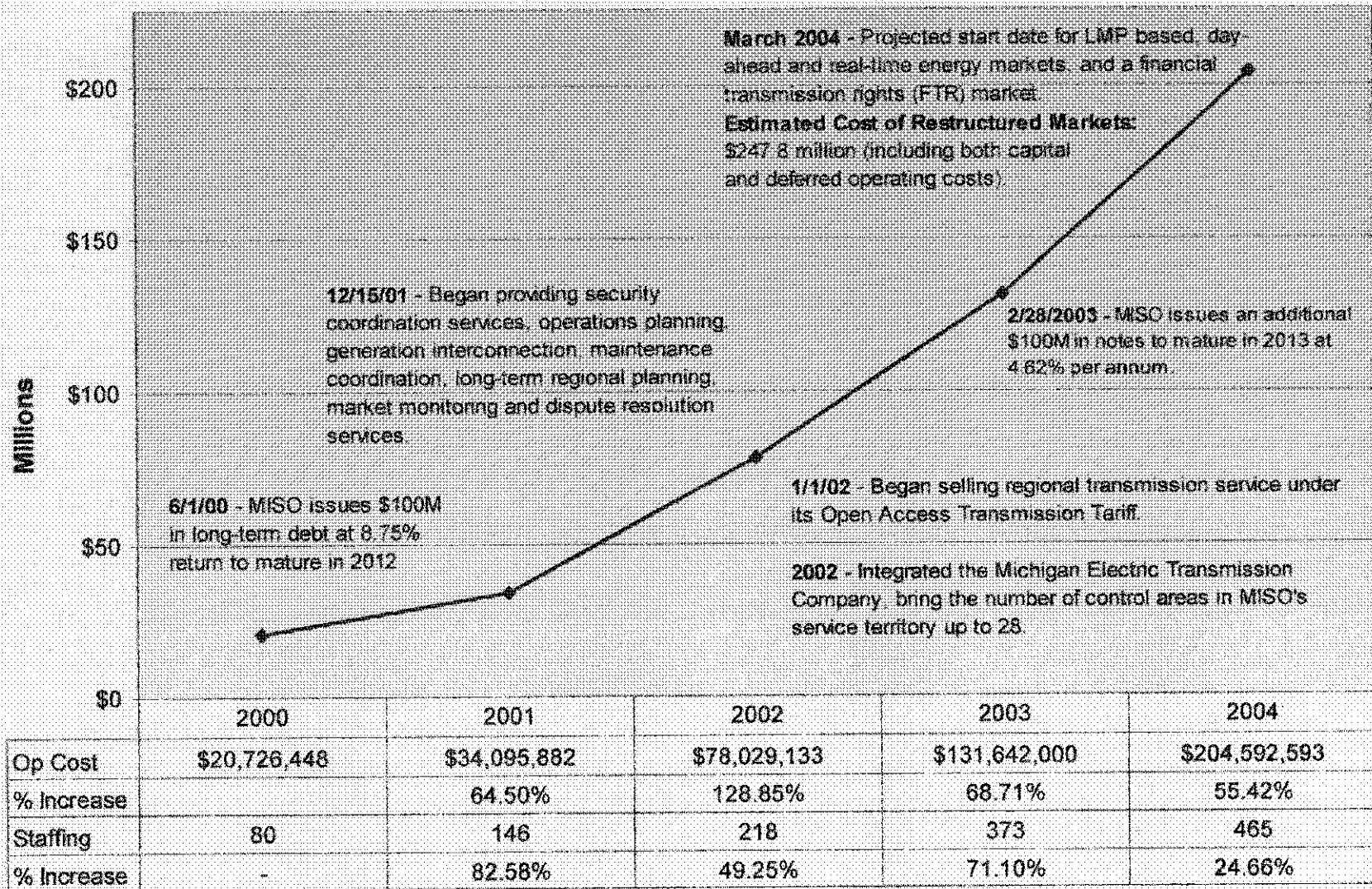


*It is unclear whether contractor are included in some data points. FERC Form 1 data does not include contractors. For consistency, contractors have been excluded whenever possible. (Sources provided on slides 16-18.)

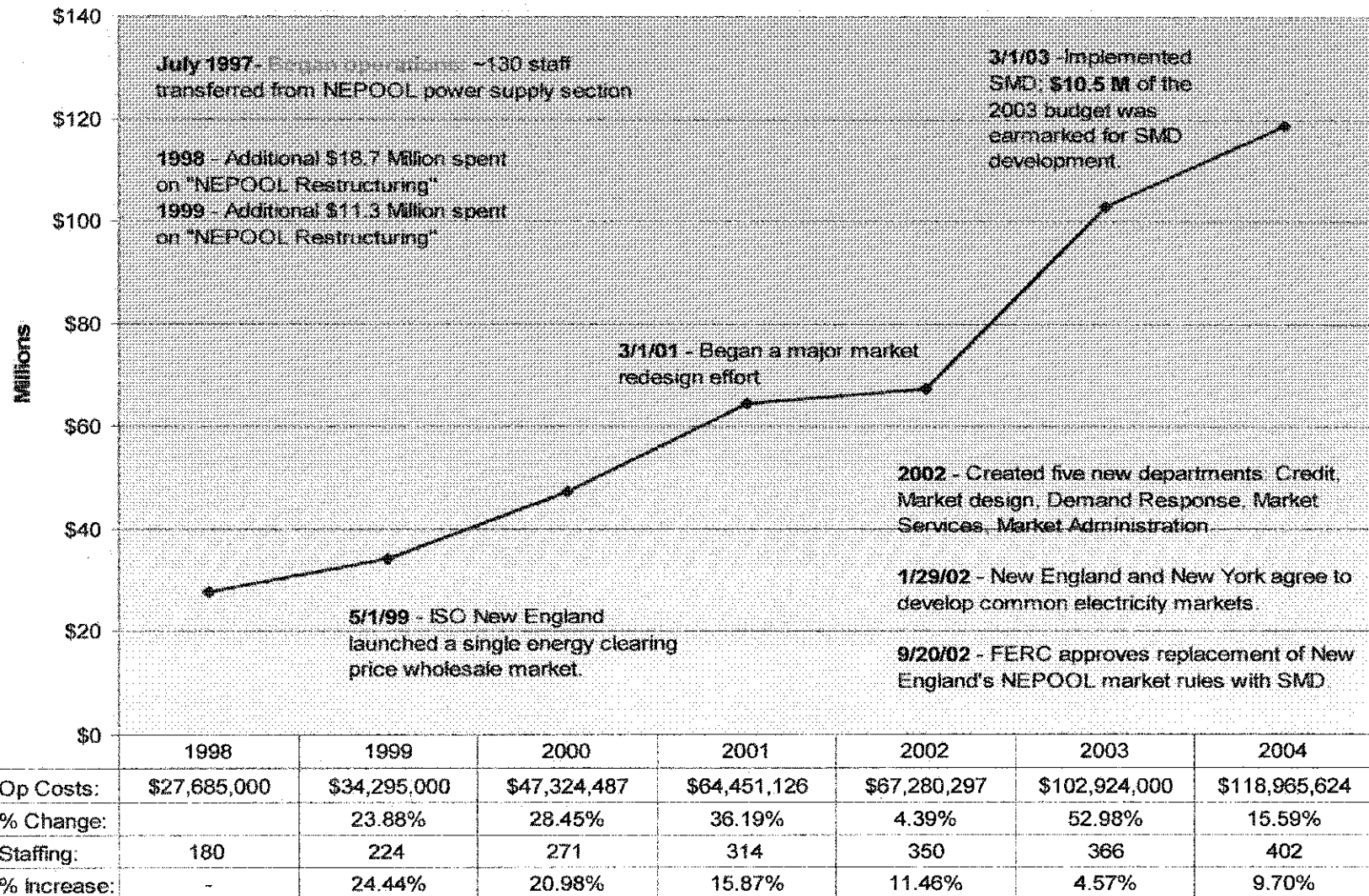
California ISO Annual Operational Costs (2003 dollars)



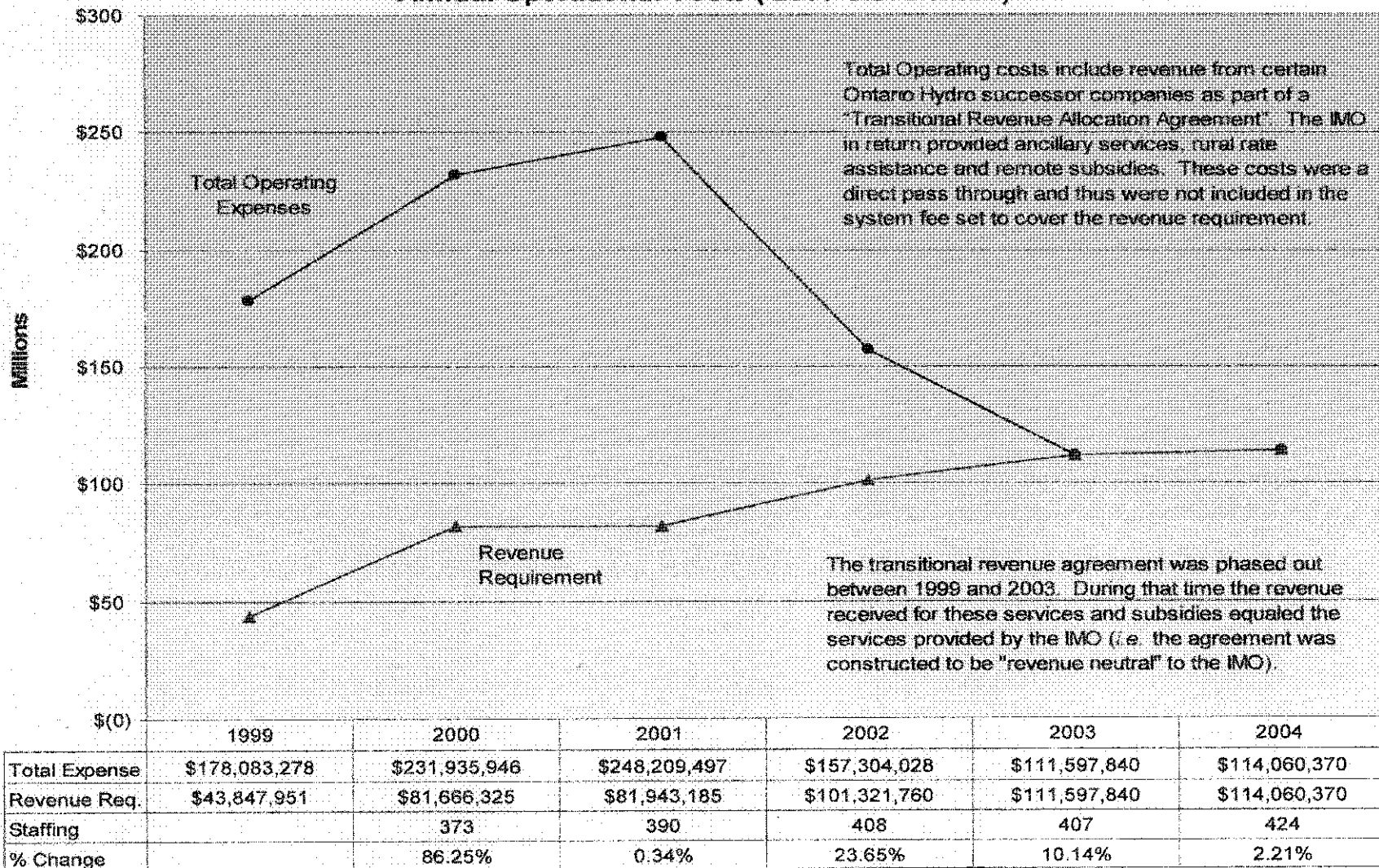
Midwest ISO Annual Operating Costs (2003 Dollars)



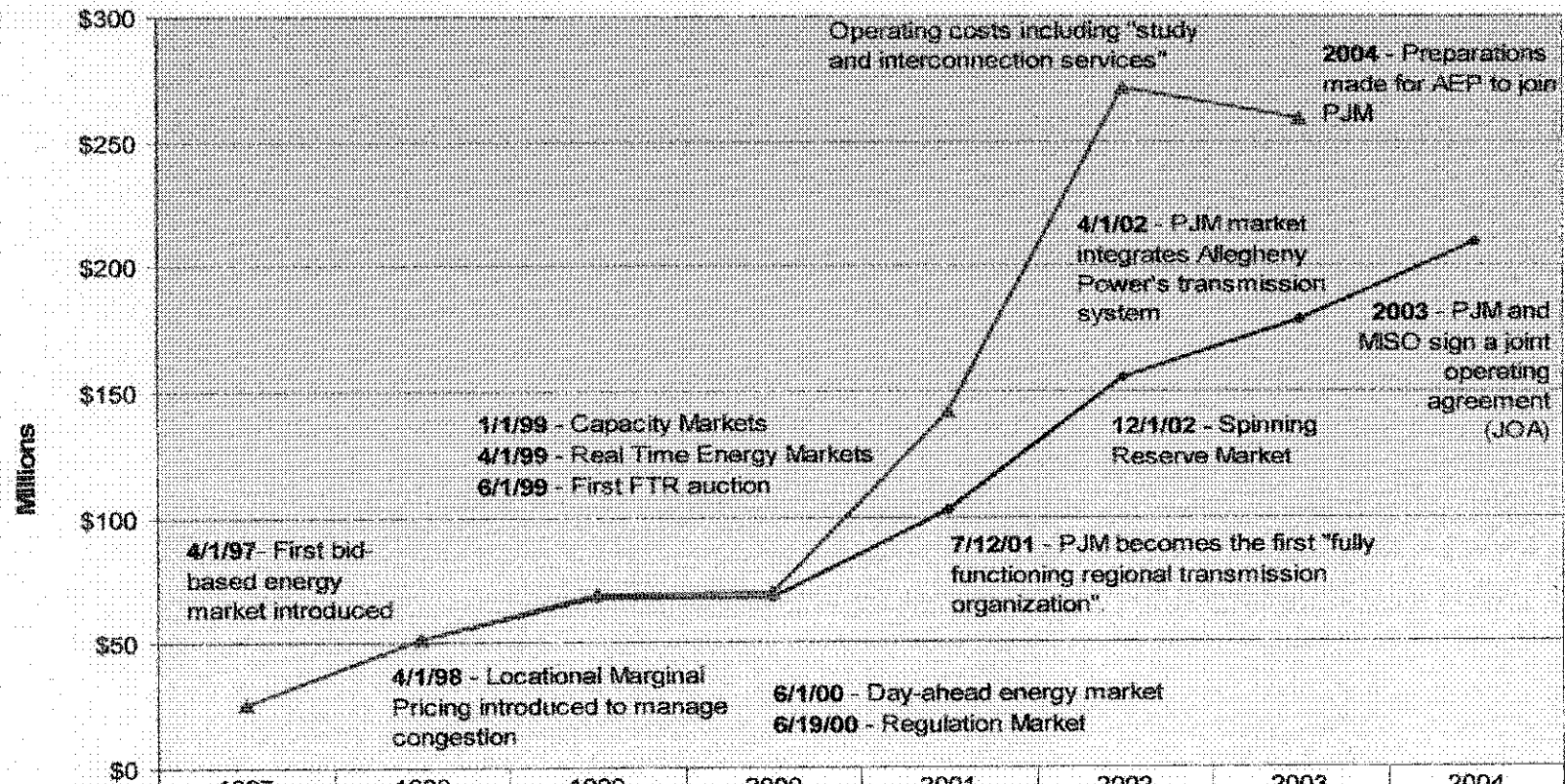
ISO New England Annual Operational Costs (2003 Dollars)



Ontario Independent Market Operator (IMO) Annual Operational Costs (2003 U.S. Dollars)

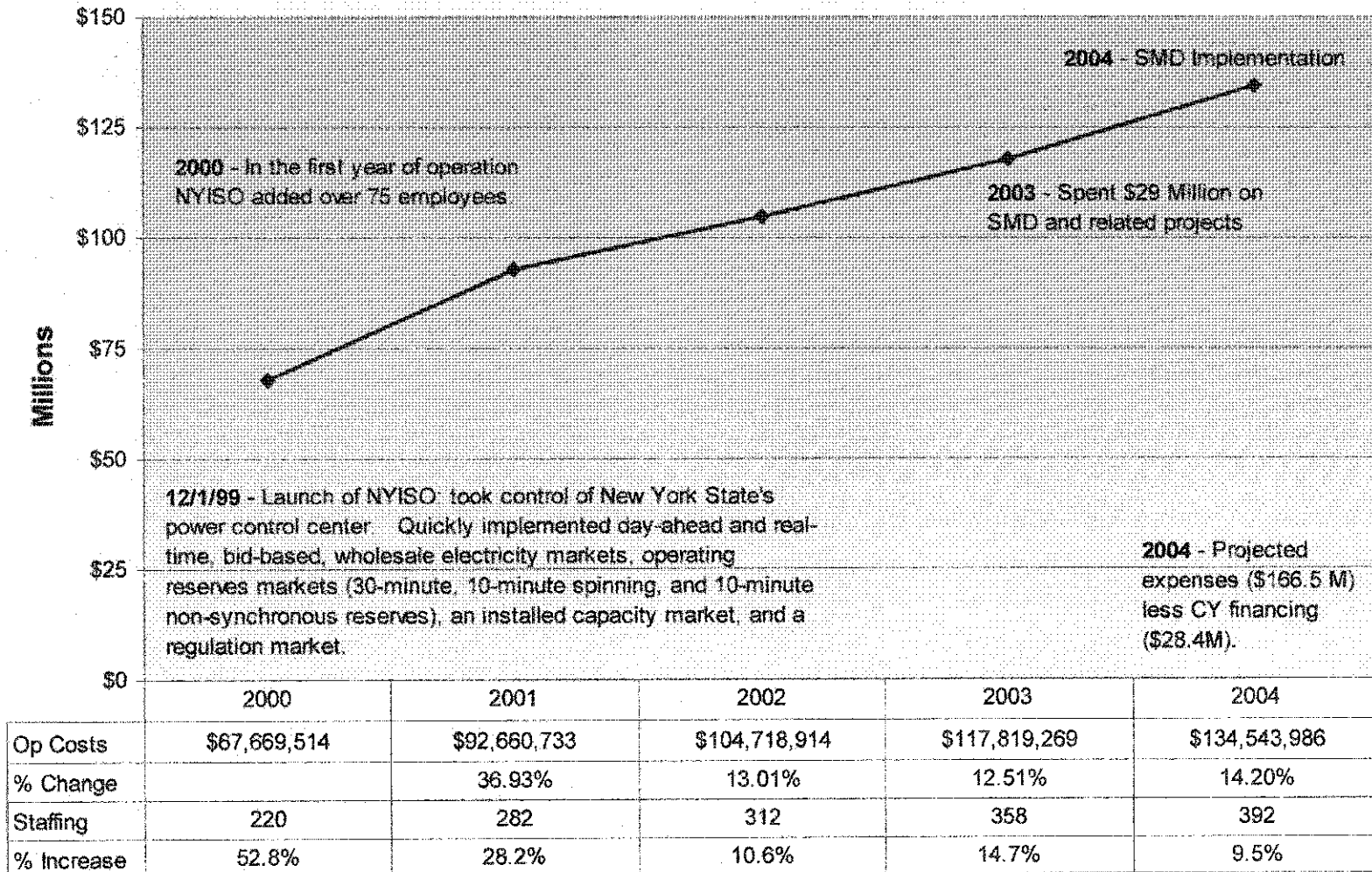


PJM Annual Operating Costs (2003 Dollars)

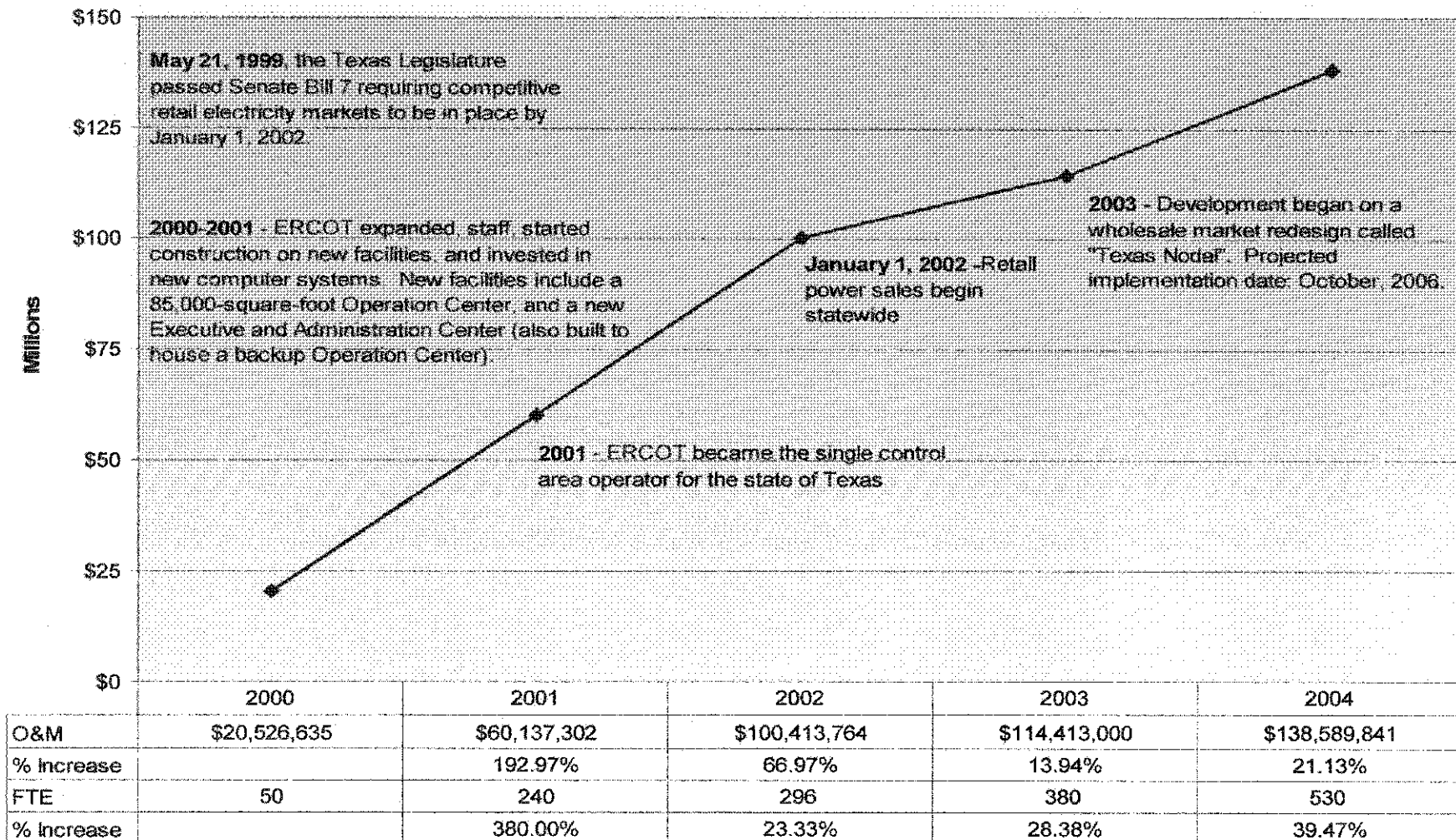


	1997	1998	1999	2000	2001	2002	2003	2004
Op Costs	\$25,240,977	\$51,290,561	\$68,405,894	\$68,188,810	\$103,196,856	\$155,627,431	\$178,492,173	\$209,463,845
% Increase		103.20%	33.37%	-0.32%	51.34%	50.81%	14.69%	17.35%
W/ S&I Services	\$25,240,977	\$51,290,561	\$69,473,280	\$70,271,237	\$141,865,885	\$271,411,002	\$259,103,173	
Staffing		238	288	332	390	448	493	undisclosed
% Increase			21.0%	15.3%	17.5%	14.9%	10.0%	

New York ISO Annual Operating Costs (2003 dollars)



ERCOT Annual Operating Expense



Data Sources:

PJM:

O&M, Amortization, Depreciation, and Interest Expense: 1997-2003 (FERC Form 1 submissions); 2004 (*Approved 2004 Budget and Service Category Rates*, 10/28/2003).

Annual Energy: 1997-1999 (*1999 Annual Report on Operations*); 2000 (*2000 Annual Report on Operations*); 2001 (*2001 Annual Report on Operations*); 2002-2003 (*Corresponding Annual Reports*); 2004 (*Approved 2004 Budget and Service Category Rates*, 10/28/2003).

Staffing Levels: 1998-2001 (FERC Form 1 submissions); 2002 (448 employees as of 9/30/2002 noted in PJM's 2002 3rd Quarter Financial Statement); 2003 (*NYISO 2003 Budget Review for the Budget, Performance, and Standards Committee*, 9/30/2002).

Start-up Costs: PJM staffers indicated that they have not calculated their overall start-up costs. Estimate provided by the *Ontario IMO 2001-2003 Business Plan*, 11/13/2000, pg. 41.

New York ISO:

O&M, Amortization, Depreciation, and Interest Expense: 2000-2003 (FERC Form 1 submissions); 2004 (*NYISO 2004 Budget Report for the Budget, Standards and Performance Subcommittee*, 11/12/2003).

Annual Energy: 2000-2002 (*NYISO 2003 Gold Book - Load and Capacity Data*); 2003-2004 (Backed into using revenue requirements and \$/MWh rates in *NYISO 2004 Budget Report*, 11/12/2003).

Staffing Levels: 2000 (*Annual Report*); 2001 (*NYISO Budget vs. Actual Results*, February 2002); 2002 (2003 *Budget Review*, 9/30/2002); 2003-2004 (*2004 Budget Overview*, 9/26/2003).

Start-up Costs: *Tabors Caramanis RTO West Cost Benefit Study*, 3/11/2002.

ISO New England:

O&M, Amortization, Depreciation, and Interest Expense: 2000-2002 (*Corresponding Annual Reports*); 2003 (*2003 Final Audited Financial Statement*, 3/3/2004); 2004 (*ISO-NE March Forecast for End of Year 2004*, March 2004).

Annual Energy: 1998-2004 (*1999-2004 Annual Capacity, Energy, Loads, and Transmission (CELT) Reports*, Note: 2004 is a forecast).

ISO New England Cont.

Staffing Levels: 1998-2001 (FERC Form 1 Submissions); 2002 (*Annual Report*); 2003 (NYISO 2003 Budget Review, 9/30/2002); 2004 (*ISO-NE March Forecast for End of Year 2004*, March 2004, Note: Projected FTE).

Start-up Costs: FERC order "Accepting for Filing and Suspending Cost Recovery Proposal, Subject to Refund and Establishing Hearing", Docket No. ER99-4235-000, 10/13/1999.

California ISO:

O&M, Amortization, Depreciation, and Interest Expense: 1998-2002 (FERC Form 1 submissions); 2003 (*December Monthly Financial Report*, 12/31/2003 Note: Actual 2003 numbers - unaudited); 2004 (*Proposed FY2004 Operating & Maintenance Budget and Capital Budget*, 9/18/03).

Annual Energy: 1998 (*2000 Annual Report on Market Issues and Performance*, November 2001); 1999-2001 (*2002 Annual Report on Market Issues and Performance*, April 2003); 2002-2003 (*2003 Market Performance Review* from the Office of Market Analysis, April 2004); 2004 (*Proposed FY2004 Operating & Maintenance Budget and Capital Budget*, 9/18/03).

Staffing Levels: 2000-2001 (FERC Form 1 submissions); 2002 (*Proposed FY 2003 Budget*, 10/16/2002, Note: "revised and approved staffing" level); 2003 (*December Monthly Financial Report*, 12/31/2003); 2004 (*Proposed FY2004 Operating & Maintenance Budget and Capital Budget*, 9/18/2003 Note: projected FTE).

Start-up Costs: *Financing Plan Execution*, 4/23/1998.

ERCOT:

O&M, Amortization, Depreciation, and Interest Expense: 2000-2003 (*2003 Annual Report*); 2004 (2004 Texas PUC rate filing (Docket # 28832)).

Annual Energy: 2000-2004 (2004 Texas PUC rate filing - Docket # 28832, Note: 2001-2002 are actuals, 2003 is part actual and part budgeted and 2004 is budgeted).

Staffing Levels: 2000, 2001, 2003 (*2003 Annual Report*); 2002 (Estimate based on rate filing information); 2004 (2004 Texas PUC rate filing (Docket # 28832)).

Start-up costs: Start-up Costs: *Tabors Caramanis RTO West Cost Benefit Study*, March 11, 2002.

Midwest ISO:

O&M costs, Amortization, Depreciation, and Interest: 2000-2003 (*Corresponding Annual Reports*); 2004 (*Updated 2004 Budget Presentation*, 3/18/2004, Note: original budget from MISO Budget Advisory Committee Presentation, 12/10/03).

Annual Energy: MISO does not collect or compute annual energy demand at this time. Estimates of MISO annual demand calculated using FERC Form 1 submissions of MISO membership.

Staffing Levels: 2000 (*MISO Order 2000 Compliance Filing (RT01-87-000)*; 1/16/2001); 2001, 2002, 2004 (*2004 Budget Advisory Committee Presentation*, 12/10/2003.); 2003 (*2003 Annual Report*).

Start-up Costs: MISO 2000 Annual Report.

Ontario IMO:

O&M, Amortization, Depreciation, and Interest Expense: 1999-2002 (*Corresponding Annual Reports*); 2003 (*2003 Final Audited Financial Statement*, 1/12/04); 2004 (*IMO Business Plan 2004-2006 Financial Overview*, 9/30/2003).

Annual Energy: Demand Overview section of Ontario IMO's webpage:

http://www.theimo.com/imoweb/media/md_demand.asp

Staffing Levels: 2000, 2002 (*IMO Business Plan 2001-2003*, 11/13/2000); 2002 (*Annual Report*); 2003-2004 (*IMO Business Plan 2004-2006 Financial Overview*, 9/30/2003 Note: 2003 is projected, 2004 is budgeted).

Start-up Costs: Ontario IMO 2001-2003 Business Plan, 11/13/2000.



Marsh Mundorf Pratt Sullivan + McKenzie
A Professional Service Corporation

Creekside Professional Center
16504 9th Ave. SE, Suite 203
Mill Creek, WA 98012

425.742.4545 phone
425.745.6060 fax

www.millcreeklaw.com

Attorneys at Law
Douglas B. Marsh
Terence L. Mundorf
Jeffrey E. Pratt
William R. Sullivan
Patrick K. McKenzie
David N. Jolly
Karl F. Hausmann

September 3, 2004

CWB-033

SEP 07 2004

Via Federal Express

Allen Burns
Executive Vice President for
Industry Restructuring
Bonneville Power Administration, R-3
905 NE 11th Avenue
Portland, Oregon 97232

Re: Comments of the Western Public Agencies Group in Response to the Letter of
July 14, 2004

Dear Allen,

Attached you will please find the comments submitted by the utilities that comprise the Western Public Agencies Group (WPAG) in response to your letter of July 14, 2004. The WPAG utilities appreciate BPA's effort to reach out and understand the concerns of its preference customers with regard to Grid West, and the draft Developmental and Operational Bylaws, and look forward to working with BPA on the issues raised in the comments of WPAG and other preference customers.

Yours truly,

MARSH MUNDORF PRATT SULLIVAN + McKENZIE

Terence L. Mundorf
Attorney for the Western Public Agencies Group

TLM:ps
encs.

9/3/04

COMMENTS OF THE WESTERN PUBLIC AGENCIES GROUP
ON THE
DRAFT DEVELOPMENTAL AND OPERATIONAL BYLAWS FOR GRID WEST

1. Introduction

The following comments are offered by the utilities of the Western Public Agencies Group ("WPAG") in response to Allen Burn's letter of July 14, 2004, requesting comments on the draft Developmental and Operational Bylaws that would govern the operation of the proposed Grid West. These comments are offered to assist BPA in forming its position whether the draft Developmental and Operational Bylaws should be approved by the Regional Representative Group and ultimately adopted by the Grid West board of directors.

In the July 14th letter, the following three questions were posed:

1. Have the draft bylaws addressed the governance concerns expressed earlier in the region?
2. Do the draft bylaws appropriately balance regional accountability with independence and workability?
3. Are there other matters BPA should consider in making this decision?

Because the most important matters for BPA's consideration are those implicated in the third question posed by BPA, the following comments will address the third question first, followed by the first and second questions.

2. Are there other matters BPA should consider in making this decision?

There are a number of factors that BPA should consider when it is deciding whether to support the adoption of the draft Developmental and Operational Bylaws. The WPAG utilities believe that it is premature to adopt the Developmental and Operational Bylaws at this time, and that BPA should vote no for the adoption of the draft bylaws, for the following reasons.

A. The Costs and Benefits of Grid West Have Not Been Assessed

To date, there has been no effort to assess whether the benefits of adopting the Developmental and Operational Bylaws, and permitting Grid West to commence operations, will outweigh the costs of doing so. A frequent response to requests to complete such an analysis is that the details of how Grid West would operate in the

“beginning state” have not been sufficiently developed to permit such an analysis. If it is the case that there is not presently sufficient information on how Grid West would operate to determine whether it will deliver a net benefit or a net cost, then it is far too early to adopt bylaws and commence the effort to identify and seat a board of directors. Such a costly and time consuming effort at institution building should not be undertaken unless and until the development of the Grid West beginning state has progressed to such a level that an assessment of whether the costs of doing so will deliver benefits that equal or exceed such costs.

B. BPA Has Provided No Contractual Assurance of Service Under Grid West

There is great uncertainty regarding what portions of BPA’s current transmission service to preference customers under NT and PTP tariffs will be retained, and which portions will be sacrificed in order to make capacity available for Grid West to sell to new users. To date, BPA has initiated no process nor made any effort to provide preference customers with contractual surety that the current transmission business relationship under the NT and PTP tariffs will survive under Grid West.

Further, the experience of the preference customers on this topic only adds to their concerns. For over a year, BPA and its customers worked to define a contract to “lock in” the characteristics of their current BPA transmission service so they could be assured that an RTO would not be free to impose changes on them. This effort produced no agreement, and in fact only served to demonstrate that at least at that point in time, BPA was not willing to contractually guarantee the transmission service currently enjoyed by its preference customers. There is no evidence to date that BPA would be anymore willing to provide a meaningful contractual guarantee than it was during the contract lock process.

It is premature to take the first step towards putting Grid West in operation, by adoption of the Developmental and Operational Bylaws, when preference customer have no contractual assurance about the nature of transmission service they will receive should Grid West commence operations. Resolution of this matter is a necessity before there is a decision on the adoption of the Developmental and Operational Bylaws.

C. There Are Lessons To Be Learned From Other Regions

A number of other regions have implemented regional transmission organizations (“RTO”) of various types, and have some track record in their operations and costs. To date, available data suggests that RTOs are both time consuming and costly, and there little substantiation that they have delivered the benefits claimed. However, the experience of these other regions, in terms of organizational costs, benefits derived, mistakes made and lessons learned, is available to the region. Unfortunately, the rush to adopt the draft Developmental and Operational Bylaws has pre-empted any opportunity to learn from the experience of other regions. Making a decision to adopt the Developmental and Operational Bylaws will effectively lock in the terms of those

documents, and preclude any realistic ability to make changes based on the experiences of other regions.

This is a serious error, and is likely to be a costly one as well. The decision on whether to adopt the Developmental and Operational Bylaws should not be made until there is an adequate opportunity to investigate how other regions that have implemented RTOs have fared, whether they have found any ways to control costs, whether the RTOs have delivered expected benefits, and whether they would take a different approach if they could start again.

3. **Have the draft bylaws addressed the governance concerns expressed earlier in the region?**

There are a number of areas in which the draft Developmental and Operational Bylaws have not adequately addressed governance concerns that have been expressed in the region, as described below.

A. **The Bylaws Do Not Address FERC Intervention**

If it becomes operational, Grid West will be a FERC jurisdictional entity, and will be required to comply with FERC orders. And while FERC is currently soft-pedaling its drive for a single market design for electricity throughout the country, there is no indication that it has abandoned that objective as a long-term goal. Further, there is no assurance that in the future the FERC will acknowledge the differences between the Pacific Northwest and other regions of the country when it issues orders, nor that the Northwest will be able to protect itself from the unintended consequences of FERC imposed solutions that work well for New Jersey but are disastrous for the Northwest.

While the Developmental Bylaws do make provision for the FERC ordering changes to the bylaws, there is no provision in the Operational Bylaws that gives the region a means of responding to an FERC order that is inimical to the interests of the region. In essence, once Grid West becomes FERC jurisdictional, the region will be stuck with whatever FERC orders Grid West to do. For preference customers, this is a major change, since currently BPA is essentially exempt from FERC jurisdiction, and only complies with FERC orders on a voluntary basis.

The Operational Bylaws should be revised to include a mechanism by which Grid West can be dissolved in the event that FERC issues an order that requires Grid West to take an action that is determined to be adverse to the interests of the region. Similarly, the transmission agreement should contain a provision permitting a transmission owning member (such as BPA) to withdraw from Grid West membership when it wishes to do so. Such provisions may be sufficient to deter the FERC from taking actions that are unacceptable to the region.

B. The Members Have No Significant Power

Aside from electing the Members Representative Committee, the members of Grid West have no significant role in the governance of Grid West. The members cannot remove board members, they cannot veto any action by the Grid West Board, they have no role in the budget process and they cannot present a slate of board candidates. In all matters, the authority of the board trumps the power of the members of Grid West. The Grid West board is not just independent, it is for all intents and purposes beyond the reach of the members of the organization.

At a minimum, the members of Grid West should have a stronger voice in the operation of an organization whose purpose is to provide better, more efficient and less costly transmission service to its members. This should include the ability of members to remove board members with and without cause, the ability to nominate candidates for board positions, and the right to veto board actions with a super-majority. These changes would strike a better balance between the independence of the Grid West board from market influences and ability to the members to ensure that Grid West is actually serving the interests of its members.

C. The Decision to Consolidate Control Areas Should be in the Bylaws

The draft Operational Bylaws permits two or more utilities to decide independently to consolidate their control areas. Once they have unilaterally made that decision, the role of Grid West is substantially expanded to include the operation of the consolidated control area, the offering of ancillary services and the establishment of additional markets. All of this takes place without consultation or approval by the Grid West members. It is inappropriate for the role of Grid West to be materially expanded in this manner due to the decision of two transmission owners without a public process, and without the involvement of the Grid West members.

The operation of a control area and the facilitation of new markets by Grid West is a major expansion of its responsibility, and more importantly of its liability. Since it is the members of Grid West that have the ultimate financial responsibility for these expanded activities of Grid West, they should not be undertaken without the consultation and consent of the membership. The decision by Grid West to become responsible for the operation of any consolidated control area should be added to the Special Issues list, and should be subject to the same approval requirements as the matters currently on the special issues list.

D. The Member Class Voting Structure Needs Revision

The transmission dependent utility ("TDU") class voting structure is currently unacceptable to a major portion of that class. The current draft of the Developmental and Operational Bylaws has the TDU class operating on a one-member-one-vote basis. This approach ignores the significant difference in interests between generating public utilities

and those without significant non-federal generation. The voting structure of this class must be revised to reflect these differences in interests.

The TDU voting structure should be revised to divide the six votes available to that class equally (three votes to each sub-class) between the smaller, non-generating preference customer subclass and the larger, generating preference customer subclass. This approach will recognize the differing interests within the TDU class, and give each an equal voice in decisions.

Additionally, the current definition of a TDU would permit a transmission owning investor owned utility to become a member of the TDU class. This is not an appropriate outcome, as there is a major difference of interests between the generating and non-generating preference utilities, which own no significant transmission assets, and the interests of an investor owned utility which has elected, for whatever reason, not to execute a transmission agreement with Grid West. The Developmental and Operational Bylaws must be revised to eliminate the possibility of a transmission owning investor owned utility becoming a member of the TDU class.

4. Do the draft bylaws appropriately balance regional accountability with independence and workability?

The draft Developmental and Operational Bylaws do not strike the appropriate balance between independence and regional accountability in the following areas.

A. The Special Issues List Does Not Provide Accountability

The special issues list has a number of serious defects that prevent it from providing meaningful accountability. First, the issues themselves are stated so vaguely that it is impossible to predict what actions if any, will trigger the special process. For example, a departure from the “company rate approach” requires use of the special process, but what constitutes the company rate and what constitutes a departure are left unstated. Second, the special issues list, and the procedural requirements it imposes, only operates the first time the particular issue is raised. After that, the Grid West board is free to take whatever action it wishes with regard to that issue without further consideration of the opinions of the members. And third, the Grid West board can overrule a super-majority of the Members Representative Committee (“MRC”) that has disapproved the proposed action, meaning that the Grid West board can disregard the overwhelming wishes of the members.

If the special issues list, and the attendant procedural requirements it mandates, are to provide any meaningful accountability, a number of revisions must be made. First, all of the special issues must be more clearly defined so that there is a reasonable understanding of what action by the Grid West board will trigger the special approval procedures, and what actions do not. Otherwise, the whole exercise is futile, and it will not provide any meaningful accountability over Grid West for the members or the region.

Second, the procedural requirements triggered by the special issues list should not be a one-time event, but should be required each time one of the special issues is acted upon by the Grid West Board. These issues do not become less important the second or third time they come up. They are important enough to warrant the procedures to determine if the proposed action of the Grid West board has sufficient regional support.

And third, the Grid West board must be required to act unanimously to overrule a veto by the MRC. Such a requirement is warranted where the Grid West board seeks to take an action that was rejected with near unanimity by the MRC. This change will restore some of the balance between the board and the wishes of the membership as expressed by the MRC.

B. The Bylaws Do Not Provide Meaningful Cost Control

Perhaps the greatest fear among preference customers is that a Grid West will impose on the region's ratepayers the same run-away cost escalation that has been seen in other regions with RTOs. To date, there has not been a serious effort to understand why other RTOs have had this experience, nor what can be done to avoid this outcome if Grid West goes operational.

As noted in section 2(C) above, part of the problem is that the rush to adopt the Developmental and Operational Bylaws has severely restricted the ability to learn from the experience of other regions. That said, there are some structural changes that could be made that would likely help avoid the cost escalation experienced by other regions. The first would be to require a budget committee, composed of three board members and five individuals representing the members that would have the responsibility of presenting an annual budget to the Grid West board. This would ensure that members have input on the budget at the formative stage. The second would be to require the Grid West board to present its annual budget to the members, and that they have the opportunity to vote to support the budget presented, or to modify the budget and recommend adoption of an alternative budget. In the event the Grid West board does not adopt the budget recommended by the members, then the FERC filing by Grid West would be required to contain the budget recommended by the members.

These provisions are not perfect, and other cost control ideas may be gleaned from discussions with other regions that currently have operating RTOs. However, at the present time the above suggestions are a necessary minimum to improve the cost control provisions of the bylaws.

C. The Bylaws are Biased Towards Adopting the Financial Rights End State

While preference customers hold varying opinions on certain aspects of the draft Developmental and Operational Bylaws, there is unanimous opposition to the financial rights end state that is advocated by some members of the Regional Representatives Group ("RRG"). In spite of this opposition, the draft Operational Bylaws requires that

the question of whether to adopt this approach must be considered every two years in perpetuity. This provision constitutes a clear bias in favor of ultimately adopting the financial rights end state.

Given the nearly unanimous public power opposition to this outcome, a couple of changes are required. First, the requirement that this issue be revisited every two years should be eliminated. There is no justification for giving this one issue special treatment that is not accorded other items on the special issues list. Second, if the MRC votes against implementation of financial rights, then there must be a unanimous Grid West board vote to override the MRC veto. This will provide preference customers assurance that the financial rights end state will not be adopted without their approval.

D. A Binding Member Vote Should be Required

There has been some discussion about requiring a membership vote before the Grid West developmental board of directors adopts the operational bylaws, which is the final step before Grid West becomes a FERC jurisdictional entity. The question about whether such a vote should be binding or advisory has also been discussed.

If the development of Grid West follows its current trajectory, the region will only have a clear picture of all of the characteristics of Grid West after the transmission agreement has been negotiated and offered to the transmission owning utilities. The execution of an offered transmission agreement gives the Developmental board of directors authority to adopt the Operational Bylaws and commence offering services. These actions will place Grid West squarely under the jurisdiction of FERC, which will materially reduce the ability of the region to make changes to this organization.

It is therefore appropriate, and necessary, that once the region has a clear picture of how the Grid West development process turned out, it be given the opportunity to decide whether the effort was a success and implementation should proceed, or whether the resulting organization is flawed and should not go operational. There can be no serious argument in opposition to the idea that the people who will be subject to an organization they have called into being should have the ultimate say as to whether they wish to proceed.

The question of whether the Grid West Operational Bylaws should be adopted by the developmental board must be put to a binding vote of the membership.

5. Conclusion

The WPAG utilities have made a considerable investment in participation in the RRG and Grid West process, including direct participation in the RRG, Bylaws Group and the Transmission Services Liaison Group. Based on this participation, the WPAG utilities believe it would be premature to adopt the Developmental and Operational Bylaws at this time, for two reasons. First, we do not know enough about what Grid West would provide to us to make a informed judgment about whether this is a good idea

or not. And second, by acting now we will be foregoing any opportunity to benefit from the experience of other regions that have already implemented an RTO. This lost opportunity to benefit from the experience of others will likely cost the region dearly.

This is not an argument to stop the development of the Grid West Beginning state. Further development may result in a proposal that garners regional support because the benefits can be identified, and the costs can be controlled. However, forcing a premature adoption of the draft Developmental and Operational Bylaws, will result in strenuous opposition, and will preclude a proposal that is supported by the region as a whole.

GWB-034

SEP 07 2004



September 3, 2004

1411 W. CLARK • PO BOX 2407
PASCO, WA 99302-2407

509-547-5591
FAX 509-547-4116

Bonneville Power Administration
Attn: Communications – DM-7
P.O. Box 14428
Portland OR 97293-4428
FAX 503-230-3285

To Whom It May Concern:

Subject: Comments Development Bylaws Grid West – R-3

The following comments are in response to Allen Burns's letter of July 14, 2004, asking for input on the proposed Development and Operational Bylaws being developed by elements of the Regional Representative Group (RRG). Allen's letter requested that comments be focused on three key points:

1. "Have the draft bylaws addressed the governance concerns expressed earlier in the region?"
2. "Do the draft bylaws appropriately balance regional accountability with independence and workability?"
3. "Are there other matters BPA should consider in making this decision?"

I have considered the three key points as requested and find that I have limited comments on the first two points, but do have some comments and observations on the third point, "other matters." If the PUD comes to a decision that an RTO is the best way to solve the region's transmission problems most cost effectively, then we do have a few issues with the proposed bylaws. We have, however, not been convinced that an RTO is the best way to solve the region's transmission problems and have instructed our RRG representative to vote against Decision #1 for the following reasons:

- We have not seen a reasonable possibility of a positive cost/benefit potential for the PUD.
- The Transmission Issues Group (TIG) effort warrants a detailed look.
- The Developmental Bylaws do not require regional consensus for moving into the operational phase of Grid West.
- The Operational Bylaws do not contain "scope creep" controls.

In order to clarify the PUD's position, I want to describe the context in which we are making our comments in hopes that they will be more fully understood.

Importance of the Decision #1

But first, I respectfully disagree with Allen Burns on the implied importance of Decision #1 (the proposed RRG vote to adopt the Development Bylaws at the October 14, 2004 RRG meeting). In Allen's letter he states that supporting the bylaws "would not be a decision by BPA to execute a contract with Grid West, nor is it a decision to seat the independent development board." While this may be true, I see a "slippery slope" here if there ever was one. I believe that if and when the

THE POWER IS YOURS

bylaws are approved by the RRG, it will be very difficult, if not impossible, to stop the formation of the Grid West in the future especially after looking at the way the bylaws are set up -- namely a more or less automatic move to the Operational Bylaws. I agree that Bonneville can technically approve or not approve the seating of the development board and the signing of a contract with Grid West. Bonneville may find at that point however that, politically, it cannot do anything but move forward with Grid West.

My recommendation is - **do not underrate the importance of Decision #1.**

The PUD prospective on Grid West

To set the stage for my comments I offer the following:

I recognize that the transmission system (BPA and others) has problems that need to be addressed. 1) It is true that needed development of the transmission system is languishing in some areas due in large part to the lack of understanding of what and how the transmission system will be managed in the future. Funding and responsibility for construction are, among other issues, also responsible for delays in construction. 2) Reliability is becoming an issue because needed improvements to the transmission system are being delayed. 3) Project developers and marketers are frustrated because they cannot get the transmission that they believe they need to develop and/or market their projects (although the current open season process on the McNary John Day improvements may be a good start). 4) Some believe that the generation system is not being operated as efficiently as it may be under a Grid West scenario.

The PUD supports finding solutions to the above problems, as well as those problems that we may not have documented here, and the PUD is willing to fund its fair share of the cost (most likely through BPA transmission rates) to implement those solutions. It has not been demonstrated to our satisfaction, however, that an RTO (i.e., Grid West) will be the most cost-effective way to bring about the needed improvements.

One of our overriding concerns is the rate that we will have to charge our retail ratepayers. Any additional costs that we pick up, from whatever source (i.e., the transmission system), must be passed on to them. We understand that the rates that we charge our retail ratepayers will have an effect on the economy in our service area and thus the economic health of our service area. With this thought in mind, I have looked at what an RTO offers versus solving the noted transmission problems piece meal (i.e., the Transmission Issues Group (TIG) effort) and I have failed to find sufficient benefit to the PUD. At this point all we have seen is the formation of an RTO that will likely cost the PUD more than solving transmission problems via other methods. Additional costs that I see are uplift charges to maintain Grid West and possible loss of existing contract rights in the use of non-firm transmission and cost shifts. Further, it is likely that an RTO will go well beyond what the region needs to maintain a sound and reliable transmission system (i.e., scope creep). My last point is supported by the experiences of other regions with their forays into the RTO arena.

It is obvious that others must see the benefit of having a Grid West (perhaps a large benefit to them). Their enthusiasm for moving forward seems unbounded. On the whole, however, the identified benefits have not been large enough for the region as a whole to move forward despite a long history of working on this concept. The first entity formed was IndeGo, then RTO West and now Grid West. The failure of IndeGo and RTO West to move forward demonstrates the lack of being able to identify significant benefits for the region as a whole. If the benefits were there and could be identified and communicated to the region, I believe that these efforts would have moved forward despite some difficult hurdles. The bottom line is the lack, to date, of demonstrated positive cost/benefit for a **Bonneville PUD Transmission Customer**. The benefits may be there, but I have not seen them.

From the PUD's prospective, we have had good, "reliable" transmission service, at what I believe to be a reasonable cost, from Bonneville. The service provided, over time, has been flexible enough to meet our needs at fairly stable rates. I would also like to point out that reliable transmission service is vital to the PUD as Bonneville's transmission system is the only source that we have to move energy from a generator to our load. Without it, we could not meet our obligations to serve our retail customers. This point is somewhat different with respect to the wholesale power supplied by Bonneville to the PUD. We could go elsewhere to secure energy (and do from time to time) to serve our retail customers, although we might not like the cost. We do not have alternatives to Bonneville transmission, thus, what you do with respect to the transmission system is of vital interest to the PUD.

The following are in order of importance to the PUD:

1. Positive Cost/Benefit – The PUD needs to see some real and tangible benefits that Grid West can and will supply to the PUD. These benefits can be through lower wholesale power rates delivered to the PUD transmission system (combination of power costs, transmission and ancillary service costs including redispatch, etc.), improved additional transmission flexibility which would yield lower power costs at the PUD transmission system and/or provide acceptable reliability that would not otherwise be provided (in other words, why will Grid West provide reliability, at a reasonable cost, that cannot or is not currently being provided).

I appreciate that work is ongoing to determine the potential cost/benefits for Grid West and a definition of what the Grid West will be needs to be reached before a good determination can be made of the cost/benefit potential. I also note that some participants have, at a high level, determined that there is high potential of a positive cost/benefit for them. I don't know how they have made this determination, but I know that I do not have confidence of a similar determination for the PUD. Perhaps the difference between us lies in the circumstances we find ourselves in (i.e., a BPA transmission customer).

2. Regional acceptance – Any proposed Development Bylaws that move into the operational phase that do not have broad regional acceptance (more than a majority of the region's stakeholders), is unacceptable to the PUD.
3. Cost Control – Scope creep and thus cost creep needs to be effectively controlled. While Grid West does need to respond to changed conditions, effective controls need to be in place to prevent an independent organization from running amok. I believe the special issues list in the operational bylaws should be expanded to include all significant changes to operations of Grid West that will have a significant dollar impact to a majority vote of the participants.

Comments on Development Bylaws

Section 12.2

It is my strong belief that any move to adopt the Development Bylaws and move to the Operational Phase should have strong regional support as evidenced by a supermajority of stakeholders. I note that section 12.2, which deals with this issue, has not been resolved. This issue must be resolved and in the bylaws prior to any request to approve them.

Comments on Operational Bylaws

As stated earlier, I am concerned with scope and thus cost creep. The "Special Issues List", Section 7.16 of the Operational Bylaws, is a good start at curbing possible scope creep without some concurrence by the region, but does not go far enough in my opinion. I believe this area

needs to be expanded any time the Grid West Board desires to "significantly" change the scope of Grid West. I believe that if Grid West intends to significantly change its current scope it should seek a majority of its Stakeholder's approval (perhaps the same approval process as for the Special Issues List).

Alternative to Grid West for Consideration

Referring to the Transmission Issues Group (TIG) paper of July 2004, and BPA's response dated August 3, 2004, please be advised that I support the proposal put forth by the TIG and will not reiterate the paper here. In BPA's response, I was encouraged to note that BPA found many areas of agreement with it. I also noted that BPA took some exceptions to portions of the TIG recommendation. I will respond here to some of BPA's exceptions:

1. I note that BPA is concerned with transmission reliability and the improvement of reliability that may be achieved through combining control areas. BPA also notes that existing control areas will likely resist combining control areas unless some independent entity is the operator. Lastly, I have heard in the past that BPA is interested in studying combined control areas for possible efficiency gains in providing load ancillary services.

BPA makes several good points, but I do not believe that an independent entity is absolutely necessary to achieve most, if not all, of the possible gains that BPA envisions. I do not believe that resistance to supplying resources to provide control functions through some sort of agreement is impossible to achieve. If some entities desire to combine control area functions and BPA determines it is in its best interest to do so, then it should be exploring the concept now, even without an RTO in place. I would support BPA's effort to determine if combining its control area with one or more control areas is beneficial to it (and hence its transmission customers). I do see resistance too, and what is likely to be a problem, even in an RTO environment, is turning over the operation and scheduling of power producing resources to the RTO. I see scheduling and the operation of resources remaining with the owning party because this is where the major economics are (i.e., when to run which resource through time). Yes, there will need to be some agreement with respect to resources on load control while at the same time producing energy.

Responding to BPA's reliability concerns, I believe that the system has been operated with acceptable reliability levels to date. As the transmission system becomes more stressed and more players become active in this arena, I can see the possibility of reliability problems. I believe that in this area the Security Coordinator's function can be strengthened to provide the necessary guidance during times of system stress to maintain the reliability level that we all desire (i.e., I do not believe that it is mandatory that an RTO be set up to cover this function although that is certainly one way to do it).

BPA made comments on the benefits of an OATI. BPA sees major improvements when it says, "reducing transaction costs and improving efficiency will come from managing the grid as a single machine." I do see some benefit to a single OASIS web site and I encourage BPA to pursue this concept for ease in arranging for energy transactions. While I must agree that there will be some benefits for a system wide identification of available transmission capacity and a central decision maker for access, I do not see the benefit as overriding the possible cost risks to the PUD from RTO costs and the possible cost shifts to the PUD that may come through a license plate rate now and/or after any company rate period.

Summary

In summary, I believe that a TIG, or TIG like effort, to solve the region's transmission problems warrants a detailed look. I believe there is a good possibility that solutions can be achieved at a

lower cost than what Grid West will offer. In fact, much has already been achieved in this area to date (i.e., the Security Coordinator).

Cost/Benefit is of major concern for the PUD and it has not been demonstrated to our satisfaction, that there will be sufficient benefit to the PUD that will overcome the costs of Grid West. In order for the PUD to approve going forward with the Development Bylaws, I need to be confident that there will be some positive cost/benefit for the PUD. The PUD having a better definition of what the Grid West will actually be when it is formed could perhaps achieve this. Further, we will need a good understanding of what provisions of our existing Transmission Contract, including existing business practices (Contract Lock), will be post implementation of Grid West.

From our point of view, the Development Bylaws will be fatally flawed unless they contain a provision for securing a regional, stakeholder majority that approves going into the operational phase of Grid West. This means a majority member vote to move to the operational phase is a function of the Development Bylaws.

While I find it hard to take apart the proposed bylaws in detail, I see considerable risk of scope creep and thus, cost creep. For this risk, combined with possible cost shift risks to be acceptable to the PUD, we need to see significant benefit potential and sufficient scope creep controls in the Operational Bylaws. I have not seen these at this point in time.

At this point in time, I have instructed our representative to the RRG to vote against the adoption of the Development Bylaws – Decision #1 and, as your transmission customer, I urge you to do the same.

Thank you for giving us the opportunity to provide you with our comments on this important topic.

Sincerely,

A handwritten signature in black ink, appearing to read "Jean Ryckman". The signature is fluid and cursive, with the first name "Jean" being more prominent than the last name "Ryckman".

Jean Ryckman
Manager

Attachment: Franklin PUD Resolution No. 975

Ltr. 2004-212



P.O. Box 480 2720 Sumner Ave. Aberdeen, WA 98520-0100
360-532-4220 FAX 360-532-6086 1-800-562-7726

GWB-035
SEP 17 2004

September 3, 2004

Bonneville Power Administration
Attn: Communications – DM-7
P.O. Box 14428
Portland Oregon 97293-4428
www.bpa.gov/comment or
FAX 503-230-3285

To Whom It May Concern:

Subject: Comments Development Bylaws Grid West – R-3

The following comments are in response to Allen Burns's letter of July 14, 2004, asking for input on the proposed Development and Operational Bylaws being developed by elements of the Regional Representative Group (RRG). Allen's letter requested that comments be focused on three key points:

1. "Have the draft bylaws addressed the governance concerns expressed earlier in the region?"
2. "Do the draft bylaws appropriately balance regional accountability with independence and workability?"
3. "Are there other matters BPA should consider in making this decision?"

I have considered the three key points as requested and find that I have limited comments on the first two points, but do have some comments and observations on the third point, "other matters." If the PUD comes to a decision that an RTO is the best way to solve the region's transmission problems most cost effectively, then we do have a few issues with the proposed bylaws. We have, however, not been convinced that an RTO is the best way to solve the region's transmission problems and have instructed our RRG representative to vote against Decision #1 for the following reasons:

- We have not seen a reasonable possibility of a positive cost/benefit potential for the PUD
- The Transmission Issues Group (TIG) effort warrants a detailed look
- The Developmental Bylaws do not require regional consensus for moving into the operational phase of Grid West
- Lack of "scope creep" controls in the Operational Bylaws

In order to clarify the PUD's position, I want to describe the context in which we are making our comments in hopes that they will be more fully understood.

Grid West Comment - R-3
September 3, 2004
Page Two

Importance of the Decision #1

But first, I respectfully disagree with Allen Burns on the implied importance of Decision #1 (the proposed RRG vote to adopt the Development Bylaws at the October 14, 2004 RRG meeting). In Allen's letter he states that supporting the bylaws "would not be a decision by BPA to execute a contract with Grid West, nor is it a decision to seat the independent development board." While this may be true, I see a "slippery slope" here if there ever was one. I believe that if and when the bylaws are approved by the RRG, it will be very difficult, if not impossible, to stop the formation of the Grid West in the future especially after looking at the way the bylaws are set up (**more comments here later**). I agree that Bonneville can technically approve or not approve the seating of the development board and the signing of a contract with Grid West. Bonneville may find at that point however, that it cannot do anything but move forward with Grid West, politically.

My recommendation is - **do not underrate the importance of Decision #1.**

The PUD perspective on Grid West

To set the stage for my comments I offer the following:

I recognize that the transmission system (BPA and others) has problems that need to be addressed. 1) It is true that needed development of the transmission system is languishing in some areas due in large part to the lack of understanding of what and how the transmission system will be managed in the future. Funding and responsibility for construction are, among other issues, also responsible for delays in construction. 2) Reliability is becoming an issue because needed improvements to the transmission system are being delayed. 3) Project developers and marketers are frustrated because they cannot get the transmission that they believe they need to develop and/or market their projects (although the current open season process on the McNary John Day improvements may be a good start). 4) Some believe that the generation system is not being operated as efficiently as it may be under a Grid West scenario.

The PUD supports finding solutions to the above problems, as well as those problems that we may not have documented here, and the PUD is willing to fund its fair share of the cost (most likely through BPA transmission rates) to implement those solutions. It has not been demonstrated to our satisfaction, however, that an RTO (i.e., Grid West) will be the most cost effective way to bring about the needed improvements.

One of our overriding concerns is the rate that we will have to charge our retail ratepayers. Any additional costs that we pick up, from whatever source (i.e., the transmission system), must be passed on to them. We understand that the rates that we

Grid West Comment – R-3
September 3, 2004
Page Three

charge our retail ratepayers will have an effect on the economy in our service area and thus the economic health of our service area. With this thought in mind, I have looked at what an RTO offers versus solving the noted transmission problems piecemeal (i.e., the Transmission Issues Group (TIG) effort) and I have failed to find sufficient benefit to the PUD. At this point all we have seen is the formation of an RTO that will likely cost the PUD more than solving transmission problems via other methods. Additional costs that I see are uplift charges to maintain Grid West and possible loss of existing contract rights in the use of non-firm transmission and cost shifts. Further, it is likely that an RTO will go well beyond what the region needs to maintain a sound and reliable transmission system (i.e., scope creep). My last point is supported by the experiences of other regions with their forays into the RTO arena.

It is obvious that others must see the benefit of having a Grid West (perhaps a large benefit to them). Their enthusiasm for moving forward seems unbounded. On the whole, however, the identified benefits have not been large enough for the region as a whole to move forward despite a long history of working on this concept. The first entity formed was IndeGo, then RTO West and now Grid West. The failure of IndeGo and RTO West to move forward demonstrates the lack of being able to identify significant benefits for the region as a whole. If the benefits were there and could be identified and communicated to the region, I believe that these efforts would have moved forward despite some difficult hurdles. The bottom line is the lack, to date, of demonstrated positive cost/benefit for a **Bonneville PUD Transmission Customer**. The benefits may be there, but I have not seen them.

From the PUD's prospective, we have had good, "reliable" transmission service, at what I believe to be a reasonable cost, from Bonneville. The service provided, over time, has been flexible enough to meet our needs at fairly stable rates. I would also like to point out that reliable transmission service is vital to the PUD as Bonneville's transmission system is the only source that we have to move energy from a generator to our load. Without it, we could not meet our obligations to serve our retail customers. This point is somewhat different with respect to the wholesale power supplied by Bonneville to the PUD. We could go elsewhere to secure energy (and do from time to time) to serve our retail customers, although we might not like the cost. We do not have alternatives to Bonneville transmission, thus, what you do with respect to the transmission system is of vital interest to the PUD.

The following are in order of importance to the PUD:

1. **Positive Cost/Benefit** – The PUD needs to see some real and tangible benefits that Grid West can and will supply to the PUD. These benefits can be through lower wholesale power rates delivered to the PUD transmission system (combination of

Grid West Comment – R-3

September 3, 2004

Page Four

power costs, transmission and ancillary service costs including redispatch, etc.), improved additional transmission flexibility which would yield lower power costs at the PUD transmission system and/or provide acceptable reliability that would not otherwise be provided (in other words, why will Grid West provide reliability, at a reasonable cost, that cannot or is not currently being provided).

I appreciate that work is ongoing to determine the potential cost/benefits for Grid West and a definition of what the Grid West will be needs to be reached before a good determination can be made of the cost/benefit potential. I also note that some participants have, at a high level, determined that there is high potential of a positive cost/benefit for them. I don't know how they have made this determination, but I know that I do not have confidence of a similar determination for the PUD. Perhaps the difference between us lies in the circumstances we find ourselves in (i.e., a BPA transmission customer).

2. Regional acceptance – Any proposed Development Bylaws, that move into the operational phase, that do not have broad regional acceptance (more than a majority of the regions stakeholders), is unacceptable to the PUD.
3. Cost Control – Scope creep and thus cost creep needs to be effectively controlled. While Grid West does need to respond to changed conditions, effective controls need to be in place to prevent an independent organization from running amok. I believe the special issues list in the operational bylaws should be expanded to include all significant changes to operations of Grid West that will have a sizeable dollar impact to be subjected to a majority vote of the participants.

Comments on Development Bylaws

Section 12.2

It is my strong belief that any move to adopt the Development Bylaws and move to the Operational Phase should have strong regional support as evidenced by a supermajority of stakeholders. I note that section 12.2, which deals with this issue, has not been resolved. This issue must be resolved and included in the bylaws prior to any request to approve them.

Comments on Operational Bylaws

As stated earlier, I am concerned with scope and thus cost creep. The "Special Issues List", Section 7.16 of the Operational Bylaws, is a good start at curbing possible scope creep without some concurrence by the region, but does not go far enough in my opinion. I believe this area needs to be expanded anytime the Grid West Board desires to

Grid West Comment – R-3
September 3, 2004
Page Five

“significantly” change the scope of Grid West. I believe that if Grid West intends to significantly change its current scope it should seek a majority of its Stakeholder’s approval (perhaps the same approval process as for the Special Issues List).

Alternative to Grid West for Consideration

Referring to the Transmission Issues Group (TIG) paper of July 2004, and BPA’s response dated August 3, 2004, please be advised that I support the proposal put forth by the TIG and will not reiterate the paper here. In BPA’s response, I was encouraged to note that BPA found many areas of agreement with it. I also noted that BPA took some exceptions to portions of the TIG recommendation. I will respond here to some of BPA’s exceptions:

1. I note that BPA is concerned with transmission reliability and the improvement of reliability that may be achieved through combining control areas. BPA also notes that existing control areas will likely resist combining control areas unless some independent entity is the operator. Lastly, I have heard in the past that BPA is interested in studying combined control areas for possible efficiency gains in providing load ancillary services.

BPA makes several good points, but I do not believe that an independent entity is absolutely necessary to achieve most, if not all, of the possible gains that BPA envisions. I do not believe that resistance to supplying resources to provide control functions through some sort of agreement is impossible to achieve. If some entities desire to combine control area functions and BPA determines it is in its best interest to do so, then it should be exploring the concept now, even without an RTO in place. I would support BPA’s effort to determine if combining its control area with one or more control areas is beneficial to it (and hence its transmission customers). I do see resistance too, and what is likely to be a problem, even in an RTO environment, is turning over the operation and scheduling of power producing resources to the RTO. I see scheduling and the operation of resources remaining with the owning party because this is where the major economics are (i.e., when to run which resource through time). Yes, there will need to be some agreement with respect to having resources on load control while at the same time producing energy.

Responding to BPA’s reliability concerns, I believe that the system has been operated with acceptable reliability levels to date. As the transmission system becomes more stressed and more players become active in this arena, I can see the possibility of reliability problems. I believe that in this area the Security Coordinator’s function can be strengthened to provide the necessary guidance during times of system stress to maintain the reliability level that we all desire.

Grid West Comment – R-3
September 3, 2004
Page Six

(i.e., I do not believe that it is mandatory that an RTO be set up to cover this function although that is certainly one way to do it).

BPA made comments on the benefits of an OATI. BPA sees major improvements when it says, "reducing transaction costs and improving efficiency will come from managing the grid as a single machine." I do see some benefit to a single OASIS web site and I encourage BPA to pursue this concept for ease in arranging for energy transactions. While I must agree that there will be some benefits for a system wide identification of available transmission capacity and a central decision maker for access, I do not see the benefit as overriding the possible cost risks to the PUD from RTO costs and the possible cost shifts to the PUD that may come through a license plate rate now and/or after any company rate period.

Summary

In summary, I believe that a TIG, or TIG like effort, to solve the regions transmission problems warrants a detailed look. I believe there is a good possibility that solutions can be achieved at a lower cost than what Grid West will offer. In fact, much has already been achieved in this area to date (i.e., the Security Coordinator).

Cost/Benefit is of major concern for the PUD and it has not been demonstrated to our satisfaction that there will be sufficient benefit to the PUD that will overcome the costs of Grid West. In order for the PUD to approve going forward with the Development Bylaws, I need to be confident that there will be some positive cost/benefit for the PUD. The PUD having a better definition of what the Grid West will actually be when it is formed could perhaps achieve this. Further, we will need a good understanding of what provisions of our existing Transmission Contract, including existing business practices (Contract Lock), will be in effect post implementation of Grid West.

From our point of view, the Development Bylaws will be fatally flawed unless they contain a provision for securing a regional, stakeholder majority that approves going into the operational phase of Grid West. This means a majority member vote to move to the operational phase is a function of the Development Bylaws.

Without taking apart the proposed bylaws in detail, suffice it to say I see considerable risk of scope creep and thus, cost creep. For this risk, combined with possible cost shift risks, to be acceptable to the PUD, we need to see significant potential benefits and sufficient scope creep controls in the Operational Bylaws. I have not seen these at this point in time.

Grid West Comment - R-3
September 3, 2004
Page Seven

Accordingly, I have instructed our representative to the RRG to vote against the adoption of the Development Bylaws - Decision #1 and, as your transmission customer, I urge you to do the same.

Thank you for giving us the opportunity to provide you with our comments on this important topic.

Sincerely,


Richard D. Lovely
General Manager

Attachment:

PUD Commission Resolution - RRG Date 6/7/2004



Providing quality water, power and service at a competitive price that our customers value

GWB-036

SEP 07 2004

September 3, 2004

Via email, U.S. mail and facsimile

Mr. Allen Burns
Executive Vice President for
Industry Restructuring
Bonneville Power Administration, R-3
P.O. Box 3621
Portland, Oregon 97208-3621

Re: Snohomish County PUD No. 1 Comments on Proposed Developmental and
Operational Grid West Bylaws – Reference No. R-3

Allen
Dear Mr. Burns:

Snohomish County PUD No. 1 agrees with the WPAG response to your letter of July 14, 2004 requesting comments on the draft Developmental and Operational Bylaws for the proposed Grid West. We agree with WPAG's conclusion that BPA should not vote for the bylaws at the RRG meeting scheduled for October 14th (which we now understand will not be until November). We have the following additional comments:

Governance is a serious concern; the draft bylaws raise Constitutional and other legal concerns.

Fundamental questions include: 1) Who has the right to vote on the Grid West proposed bylaws?; 2) Who has the right to vote to elect board members?; 3) How will one-person/one-vote principles be assured?; and 4) Should board members be selected by a slate established by an executive search firm? The bylaws will determine who has future control over a major federally-owned asset.

Up until now, that federal asset, which provides over 75% of the region's transmission, is subject to the ultimate control of Congress and the Administration. Under the proposed bylaws, that will no longer be true. The bylaws would begin a process that would replace Congressional and Presidential control over a major federal transmission asset with a board that is, by definition, independent of Congress and the region's citizens. Ceding control of federal, publicly-owned, assets-- before extensive policy and legal review-- is a mistake and may be illegal. This issue must be carefully reviewed before any vote on the bylaws.

Snohomish County PUD No. 1 submitted comments to the National Academy of Public Administration (NAPA), who BPA asked to review the proposed governance structure of Grid West. Our comments to NAPA raised the concerns we have with removing or reducing Congressional control over BPA's transmission assets. The NAPA report will not be published until October 29th. We believe that Congress and the region should have time to thoroughly review the comments and report from NAPA. Prudence dictates that a broadly and fully reviewed NAPA report along with a full review of the legal and constitutional questions be accomplished before any vote by BPA or RRG on the bylaws. Otherwise, what was the point of commissioning the NAPA review?

Our comments to NAPA on their staff draft report entitled "Grid West: A Review of the Proposed Governance Structure," are attached for your convenience.

There is no regional consensus for the formation of Grid West .

The overwhelming core of BPA's public utility customers are opposed to the formation of Grid West--as WPAG, PPC and the Washington PUD Association have made clear. We are not convinced that the formation of Grid West is the best way to solve the transmission issues in the Northwest. Until BPA is able to convince the Northwest Congressional delegation and its preference customers that a regional RTO such as Grid West is: (1) consistent with law; (2) good regional policy; (3) cost-effective; (4) accountable to the citizens of the Northwest; and (5) would not harm its publicly-owned preference customers, it should not support a vote on bylaws.

Alternatives to Grid West must be identified and considered before any vote.

Alternatives to Grid West-- using existing institutions and alternatives that do not involve radical change-- must be considered prior to a vote on the bylaws. The Transmission Issues Group (TIG), a group which includes representatives from public power utilities, certain investor owned utilities, and utility regulators, made recommendations last July that provide one such alternative. Those recommendations are a "package of practical, cost-effective and incremental changes that the region can implement in the next two to three years." They also address most of the transmission issues facing the region such as excess transaction costs for use of multiple transmission systems (use of a common OASIS), lack of regional transmission planning and expansion (use of Northwest Transmission Assessment Committee), enhanced reliability and security (use the Pacific NW Security Coordinator), and complexity of transmission access over multiple transmission systems (use of a single regional transmission queue through a common OASIS). These solutions do not require the formation of a costly new and untested organization with controversial governance questions and legal issues.

There should be a complete cost benefit and alternatives study before a vote on the bylaws.

Snohomish, with the participation of several other regional utilities, requested Henwood Energy Services to prepare a Cost Benefit Study of Grid West. This is underway with the assistance of PPC. We remain concerned that BPA is proceeding with a vote on bylaws before the completion of any such study. We understand that the RRG may also prepare a "risk/reward" study on Grid West, but that it will not be completed until 2006 or 2007.

No vote should be considered until Congress and the region have had the opportunity to review and consider a complete and detailed cost/benefit and alternatives study.

PPC's initial analysis on the cost of existing RTO's, presented at the American Public Power Association's national conference in Seattle, show that existing RTOs have been significantly more expensive and have provided far fewer benefits than expected--and the operational costs of existing RTOs continue to grow out of control. The experience of other RTOs indicates that the operating cost of Grid West will be between \$184 million to \$221million per year and will cost from \$130 to \$180 million to establish.

Critical information is missing before the Region votes on the bylaws.

BPA must provide key information before any vote to proceed. This includes the pricing structure, congestion clearing mechanisms, physical versus financial rights, dispatch rights, and preference of load serving entities. This information is critical in order to allow utilities and their consumers to judge whether the region should proceed with such a proposal. The fact that they are difficult and time consuming to prepare is not sufficient reason to put them at the end of the decision process.


BPA should not vote in favor of the bylaws unless two-thirds of its preference customers agree that Grid West should be established.

The proposed vote on the bylaws is in the nature of a constitutional vote because it will lead to a fundamental governance change in the region over a major federal asset. Apart from the legal and Constitutional requirements, BPA should not vote for the bylaws unless two-thirds of its preference customers favor moving forward with Grid West. BPA was primarily formed to assist its preference customers, and it has certain legal and fiduciary duties not to compromise those customers in favor of five new arbitrary classes of "voters" that the bylaws would establish.

For the reasons expressed by WPAG and for the additional comments above, we urge BPA to vote no on the bylaws.

If there are questions regarding these comments please feel free to contact me at (425) 783-8015.

Very truly yours,



Steve Marshall

Assistant General Manager
Power & Transmission Services

Enclosure: E-Mail addressed to Ken Ryder

Ken Ryder
National Academy of Public Administration
1100 New York Avenue N.W. Suite 1090E
Washington, D.C. 20005-3934

Delivery via email: Kryder@NAPAWASH.ORG
ProfcomUSA@aol.com

Re: Preliminary Comments on August 23rd Staff Draft on Grid West's Proposed Governance Structure

Dear Mr. Ryder:

Snohomish County PUD No. 1 is the second largest publicly-owned utility in the Northwest and the 12th largest in the United States, serving over 670,000 citizens. We are Bonneville's largest power customer, and we depend on Bonneville for all of our high voltage transmission needs.

Earlier this week, we were provided with a copy of your 34 page draft report, dated August 23rd and learned that comments were due today, August 27th. We provide the following brief initial comments in two sections, one on substantive concerns and one on process questions.

Substantive Concerns:

Lack of Regional Consensus. There is not a regional consensus that Grid West or any RTO is appropriate for the Northwest. For example, the Washington Public Utility District (PUD) Association recently passed a resolution calling on Bonneville and the region to reject Grid West. The Northwest is significantly different than other regions in the United States that have established RTOs. In the Northwest the federal government, through the Bonneville Power Administration, already controls approximately 80% of the region's transmission. It is not clear why Bonneville, which is larger than some existing RTOs, cannot modify its practices without the need for a new, expensive and untested structure.

Detailed Cost and Benefit Study. Because it appears that the costs of Grid West, or any RTO for the Northwest, will far exceed the purported potential benefits under any version under consideration, it is neither appropriate to proceed with a vote on the Developmental by laws nor to initiate a search for board members until a detailed study of those costs and benefits is completed. The previous studies were flawed and a recent Public Power Council analysis of existing RTOs elsewhere shows that the costs have been substantially underestimated and the benefits have been overstated. Under Bonneville's current plan, no cost/benefit study is contemplated until 2006 or 2007.

Vote Should Not Precede Final NAPA Report. Bonneville's current schedule calls for a vote on the Developmental bylaws on October 14th, two weeks before the final NAPA report is due on October 29th. Careful review by the Northwest Congressional delegation and affected citizens of the NAPA report should be a requirement long before any such vote.

Who Has the Right to Vote--The Constitutional Issue. The most fundamental governance issue that NAPA should address is not discussed in the initial draft: Who in the Northwest has the right to vote on Grid West issues-- including the initial vote on October 14th on the Developmental bylaws? As an agency of the Federal Government, Bonneville and its transmission assets are currently under the control of Congress and the President under a system of governance that requires a one person-one vote representation under the Constitution. The governance structure under the proposed by laws does not meet the Constitutional test.

The October 14th vote on the proposed Developmental bylaws starts a process to replace Congressional control with a board that will by definition be independent of Northwest voters and their Congressional representatives. Because Bonneville owns 80% of the Northwest transmission assets, this fact raises a legal and Constitutional issue that other areas of the United States that have adopted RTOs have not addressed. (Existing RTOs elsewhere do not involve issues of who may exercise governance and control over major federal transmission assets). The October 14th vote would create five arbitrary classes of members that would not be selected under proportional representation and would begin to remove Congressional control.

Voting Should be Postponed Until Further Studies are Completed and Reviewed. NAPA should recommend that BPA delay the vote currently set for October 14th until NAPA's final report has addressed the fundamental Constitutional governance issues and allows time for the Northwest Congressional delegation to review the final NAPA report and the governance issues.

NAPA should also propose that BPA prepare a detailed report on the costs and benefits of Grid West before there is a vote on Developmental bylaws. The report should address why Bonneville and existing regional institutions-- with the help of the Northwest Congressional delegation-- cannot resolve whatever issues Grid West would potentially handle. In other words, NAPA's report should advise against a new, arbitrary and untested governance structure when there are existing federal Constitutional institutions that could do the job.

Process Questions:

Limited List of Interviewees. Why was the NAPA interview list so narrow? Why wasn't Snohomish PUD, BPA's largest customer, and the 12th largest public utility in the country, interviewed? The NAPA interview list also did not include the chief executives of the Washington P.U.D. Association and the Public Power Council, the two largest public power organizations in the region.

Limited opportunity to comment. We were disappointed to learn that NAPA at this time was interested in receiving comments primarily from interviewees. Why not circulate the draft report to all interest parties so that everyone who might be interested or affected would have the opportunity to read and comment upon the draft report.

Limited Time to Comment. For those interviewees who were invited to comment, why were they given only five days in which to review the report and prepare comments? And those of us who received the draft report later than the interviewees had even less time. We respectfully recommend that NAPA broadly circulate its next draft report throughout the Pacific Northwest and allow adequate opportunity for comments.¹

Limited Scope of Report. We are also concerned at the limited scope of the NAPA Report although we understand that BPA, not NAPA, limited the scope of the report. We notice there was no discussion or review of alternative methods of governance or other means of electing or selecting members of the governing board. Is an executive search firm developing a slate of board members (see p. 19) the best way to establish an accountable board with creditability in the region? Should board members be allowed to have financial interests in any of the privately-owned utilities, generators, or other entities which might benefit from Grid West? Why did NAPA limit its review to only one governance concept? Why not consider a directly elected board or a board whose members are appointed by the governors or by the President with regional Congressional approval? We believe the final NAPA report should address each of these issues.

In conclusion, we realize NAPA and its staff have been given a tough job with a tight time schedule. We also have not had much time to review and reflect upon our comments. As this NAPA process proceeds, we hope you will invite more of us into the process. Meanwhile, we also hope you will expand the scope of the report to evaluate other governance options, address the Constitutional governance issues, and discuss the questions which we and other commentators have raised in our rapidly drafted comments.

Very truly yours,

Ed Hansen
General Manager

¹ At page 7 of the draft report, NAPA staff stated the purpose of the draft was to invite comments from all parties.



6W3-037
SEP 07 2004

Commissioners
Nancy E. Barnes
Carol J. Curtis
Byron H. Hanke

*Chief Executive Officer/
General Manager*
Wayne W. Nelson

September 3, 2004

Mr. Allen Burns
Vice President for Industry Restructuring
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621

RE: Grid West Bylaws

Dear Mr. Burns:

Clark Public Utilities welcomes the opportunity to respond to your request for comments on the proposed Grid West bylaws. As a transmission dependent utility with end users to serve, Clark relies on BPA to ensure a reliable and cost-effective grid. The proposed bylaws appear to put those desirable attributes at unnecessary risk. Clark urges you to go slowly when considering far-reaching changes to a system which works well for your public utility customers. Approval of the proposed bylaws would be an unwelcome step toward a system which may not work for existing users.

The bylaws as proposed do not address our concerns with governance or independence. The bylaws contain provisions which favor the adoption of the financial rights end state by requiring repeated consideration of this question. Clark opposes this end state and objects to the bias apparent in the bylaws. Furthermore, the bylaws appear to give the members virtually no power within the organization. The members and their customers bear the consequences of all Grid West actions and must have a meaningful influence on decisions.

Adoption of any bylaws, even if the problems above were resolved, is premature. We still have no reason to believe that Grid West would provide benefits in excess of costs. A number of other regions have been down this path. The Northwest has the opportunity to use the experiences of others to help us avoid disruptions and unnecessary costs. There is no need to hurry. Let's take the time to learn before committing to huge costs and giving up a system that is serving us well.

Mr. Allen Burns
September 3, 2004
Page two

Finally, Clark is concerned about the uncertainty around how we will be served under Grid West. Will we continue to be able to deliver power to our retail customers at reasonable rates or will marketers get the use of facilities that were built to serve us? We need certainty about retaining our current rights to service and we hope that BPA feels equally committed to the importance of ensuring continuing service to current customers.

Clark supports the comments of the Western Public Agencies Group and the Public Power Council. Thank you for considering Clark's point of view on this important issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Wayne W. Nelson", with a long horizontal flourish extending to the right.

Wayne W. Nelson
CEO/General Manager
Clark Public Utilities

BB/pw